

THE FUTURE OF CLERGY PENSIONS

Foreword from the Archbishops

1. In November 2008, we decided to invite the Chair of the Archbishops' Council's Finance Committee, the Chair of the Pensions Board and the First Estates Commissioner to come together once again in a Task Group to consider the future of the clergy pension scheme.
2. It was disappointing to find ourselves having to take further action despite the changes agreed by Synod in 2007, which were intended to provide a more sustainable basis for the future funding of the scheme. In the event, the subsequent turbulence on the financial markets has set the Church of England an even more severe test in relation to pension funding than was the case three years ago.
3. We are very grateful to Andrew Britton, Andreas Whittam Smith and Jonathan Spencer for the work that they and those who have supported them have done to analyse the issues and options so clearly. We are also grateful to all those who responded to the consultation document that they issued in June.
4. The Archbishops' Council and DRACSC have now considered the Task Group's proposals and endorsed them. In all the circumstances they concluded that the way forward identified by the Task Group, unwelcome though it is, provides a carefully balanced and realistic way forward.
5. If it is approved by Synod it will then need to be the subject of a statutory consultation process with all pension scheme members before the rule changes can be brought to Synod in July.

+Rowan Cantuar

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January 2010

REPORT OF ARCHBISHOPS' TASK GROUP ON CLERGY PENSIONS

Summary

1. Our conclusions are as follows:
 - i) **The Church must continue to fulfil its commitment to ensure that clergy receive an adequate income in retirement and, where needed, help with retirement housing following years of ministry in tied accommodation.**
 - ii) **Modifications to the present scheme are highly regrettable given the changes agreed only three years ago. They are, nevertheless, unavoidable to make costs affordable given the very substantial sums which will have to be paid over many years to meet the past service deficit and ensure that the scheme is prudently funded.**
 - iii) **It would be right to plan on the basis that the cost, including the amount needed to eliminate the past service deficit, is going to be in the region of 42% for the foreseeable future.**
 - iv) **The arguments against seeking fresh powers for the Church Commissioners to commit additional funds to the scheme remain compelling.**
 - v) **The support from dioceses for maintaining the defined benefit scheme has significantly eroded over the past three years to the point where there is now a fairly even balance of views among the dioceses between those favouring its retention and those advocating a move to a hybrid scheme.**
 - vi) **Given the division of views we do not believe that there is a sufficient consensus for a decision now to abandon a defined benefit approach. We do believe, however, that work needs to be put in hand to explore in some detail how a hybrid scheme for the clergy might work.**
2. Our recommendations in the light of these conclusions are:
 - i) **The clergy scheme should be contracted into the state second pension scheme (S2P). The full pension from the Clergy pension scheme would in consequence be reduced from two-thirds of national minimum stipend (NMS) to half of NMS for future service. Members would thereby earn a smaller scheme pension but a higher State pension for future service. This**

change would have a broadly neutral effect on total future pension entitlement from all sources.

- ii) The Central Stipends Authority should adopt a policy that the NMS should in future increase on average in line with annual changes in the Retail Prices Index (RPI), subject to the need to review the position if high levels of inflation establish themselves and also once the deficit on the pensions fund has been cleared.**
- iii) The pension age for future service should, from 1 January 2011, be 68 rather than 65.**
- iv) The accrual period for future service from 1 January 2011 should be 43 rather than 40 years.**
- v) Further work should be undertaken to explore options that would be cost neutral compared with the present defined benefits scheme (as modified in the ways that we have proposed). The test of any new, hybrid scheme should be whether it has the potential to create more stable, sustainable and affordable arrangements for the long term while continuing to ensure adequate retirement incomes for clergy.**
- vi) The results of this exploratory work should be reported back to the Archbishops' Council before the end of 2011. The Council should submit the report to the Synod with its recommendations. Any decision to introduce a hybrid scheme would be for the Synod itself to take.**

The Consultation Paper

3. In November 2008 the Archbishops invited us to consider the implications of the serious deterioration in the funding position of the clergy pension scheme. We issued a scene setting paper at the beginning of March and a consultation paper on 30 June
4. We noted that the amount that dioceses and other funding bodies had to pay the Pensions Board as a contribution for every clergy member of the scheme had already risen from 21.9% of stipend when the funded scheme was introduced in 1998 to 39.7% and from January 2010 would increase further to 45% on an interim basis. We reported that, barring significant changes in market conditions, the contribution rate from 2011, following the next formal valuation, might have to rise even further to around 57% of the pensionable stipend. Of this, 38% would be for future service and 19% to pay off the accumulated deficit over the next 15 years.
5. On the basis of what we had already heard from dioceses we concluded that contribution levels of this kind would be unaffordable without disproportionate damage to other aspects of the Church's mission and ministry. We suggested, therefore, that the target cost from 2011 should be around 42% (£8,580 per head), still nearly double the rate when the funded scheme was introduced in 1998.
6. We therefore identified a package of four measures which would reduce the contribution rate by 15 percentage points namely:
 - i) **Contracting the Clergy Scheme into the state second pension (S2P) and reducing the full pension from the Clergy pension scheme from two-thirds of national minimum stipend (NMS) to half of NMS for future service. Members would receive a smaller scheme pension but higher State pension for future service. This change would have a broadly neutral effect on the total future pension entitlement from all sources;**
 - ii) **Limiting the annual increase in the pensionable stipend to price inflation (RPI);**
 - iii) **Changing the pension age for future service from 65 to 68, and;**
 - iv) **Moving, again for future service, the accrual period for full pension from 40 to 43 years.**
7. We also explored the possibility of more radical change in the structure of the scheme. Our consultation paper set out three possible approaches;
 - i) Retaining the present **defined benefit** approach;

- ii) Moving to a **defined contribution** system;
 - iii) Adopting a **hybrid scheme** – part defined benefit and part defined contribution.
8. We noted that the four changes identified to reduce the costs of the scheme to affordable levels would need to apply to all future service from 2011. They would, therefore, affect existing as well as new scheme members. Pension earned before the change would, however, be unaffected. So, in practice, those closest to retirement with most of their pension already earned would be least affected. The impact of the changes on clergy of differing ages and lengths of service was illustrated in a supplementary report issued during August.
9. In the consultation we also noted that if it were decided to change the structure of the scheme more fundamentally, whether by moving to a defined contribution or hybrid approach, there would be a choice whether to do so for all future service or only for new entrants to the scheme. Changes confined to new entrants would have only a small financial impact on the overall cost of the scheme for quite a long time.
10. We concluded our report by asking four questions:
- i) Do you agree that the target contribution rate from 2011 (including for paying the past service deficit) should be around 42%¹?
 - ii) Of the three possible models (DB, DC, hybrid) which do you prefer?
 - iii) Are there any variants to one or other of the three options for change models that you would wish to propose?
 - iv) Do you have any other proposals or comments?
11. Attached at **Annex A** is an analysis of the responses that have been received. We are grateful to all those who have wrestled with these difficult matters over recent months. We and the staff team who have supported us have greatly valued the opportunity to attend diocesan meetings and engage directly both with scheme members and those responsible for its funding.
12. The main points to emerge from the consultation are:
- a clear view from nearly all dioceses that a cost of around 42% is now at the limit of affordability;
 - an appreciation that changes along the lines proposed are necessary to reduce costs to this level, though some respondents have raised questions about individual proposals or suggested variants;

¹ References to the contribution rate throughout this report refer to the overall pension cost to dioceses as a proportion of stipend, including, in the case of contracting in, the increased employers' National Insurance cost

- a major division of views over whether to stick with the defined benefits scheme or move to a new hybrid scheme, though little support for moving to a Defined Contribution scheme.

Market Conditions

13. A question which came up regularly in diocesan meetings was whether further developments in the financial markets might call into question the analysis in our 30 June paper. This question goes to the heart of a difficulty that has faced pension funds more generally over recent years as a result of changes in regulation and actuarial practice.
14. Pensions represent long term commitments. Funders and scheme trustees need to take the long view rather than becoming unduly preoccupied with short term movements in the markets. Pension trustees are, however, required to take a prudent view of their responsibilities, conducting a full actuarial assessment of their fund every three years.
15. The Pensions Regulator has signalled a willingness to allow some greater flexibility over the duration of deficit recovery plans in the light of recent, highly abnormal market conditions. Nevertheless, the Regulator has reaffirmed the underlying basis of the current regulatory system and the importance of prudence.
16. At its September meeting the Pensions Board discussed the present funding assumptions of the clergy scheme which underpin the deficit recovery plan. Its conclusion was that they left little scope for flexibility. Although the proposal is for a fresh 15 year deficit recovery period (which essentially stretches the original recovery plan to 18 years) the assumptions made about future pensions returns could not be eased without increasing the risk of underperformance and fresh difficulties in years to come.
17. **Given the experience of the past decade, our view is that it would not be in the interests of the Church in general or the clergy in particular for the trustee and for the funders to take other than a cautious view.** One of the recurrent problems of the past thirty years since the 1980 decision to improve pension benefits substantially is that the Church has consistently tended to underestimate the cost of the promises that it has made.
18. The figures that will determine the forthcoming triennial valuation will be related to the value of the pension fund and its liabilities as at 31 December 2009. The steady improvement in the stock market over recent months will be reflected in those figures, though much also turns on the returns on Government securities (gilts), which are key building blocks in calculating pension liabilities. While equities have performed well in recent months, gilt yields have remained depressed.
19. It should also be noted that the equity markets fell further in the first quarter of 2009 and that part of the recovery since then has merely recovered ground lost since the end of 2008 - the date for the figures on which we based our June report.

20. It would be prudent, therefore, to plan on the basis that the calculations made on the basis of the end 2009 figure will still show a deficit not far short of £300m (compared with the £141m at the last valuation in 2006) and the need for a contribution rate some way above 50%. We do not believe that the forthcoming actuarial review will produce results that avert the need for difficult decisions.
21. A newspaper report on 3 November suggested that the challenges facing the Church were partly the result of an investment strategy adopted by the Pensions Board since 1998 that was ‘unusual- and highly risky’ (it also, inaccurately, suggested that the pension benefits of a ‘young clergyman, aged 30... could turn out to be less than half of what retirees are receiving’). This is not so.
22. What has been overlooked in this and other public comment is that the clergy pension scheme is very unusual in being funded from two different sources. The fund managed by the Pensions Board is only part of the story. It will remain the case for many years yet that the amount being paid out each year for pensions and lump sums by the Church Commissioners will exceed many times over the amount that the Pensions Board is paying out in respect of service earned since the beginning of 1998 (in 2008 the figures were £108m from the Church Commissioners as against £13m from the Board, which received some £70m that year in pension contributions).
23. The Commissioners’ asset base, which supports a wide range of expenditure commitments, is much more diversely spread than the Pensions Board’s immature fund. We explained in our consultation document the reasons for the Board’s decision to invest 100% in equities and other equivalent securities while the principal liabilities of the fund remained some considerable way into the future. This is in accordance with mainstream actuarial and investment advice given by its professional advisors. It is also an investment strategy that was fully explained to the dioceses.
24. The Board has already decided that it will, as is standard practice, progressively move part of the scheme’s investments into Government bonds from 2017 as the liabilities of the clergy pension fund mature. It remains the case that over the long term returns on equities have continued to out perform gilts significantly, so equities are likely to remain a significant part of the portfolio.
25. It is undoubtedly the case that the period since the funded scheme began in 1998 has been a particularly bad one for equity markets and, in consequence, a difficult one for a relatively new pension fund. But it is important to be clear that the difficulties facing the clergy scheme are much the same as those facing all defined benefit schemes. Many of these have now closed given the large deficits that they face in the light of market conditions and of a new regulatory regime that requires trustees to evaluate deficits more prudently and address them over a shorter period than was historically the norm.

Our Approach

26. Against that background we have sought to identify a way forward which takes account of the views that we have received during the consultation process both

from those dependent on the scheme for their income in retirement and those who have to finance it. Our broad conclusions are as follows:

- **The Church must continue to fulfil its commitment to ensure that clergy receive an adequate income in retirement and, where needed, help with retirement housing following years of ministry in tied accommodation;**
- **Modifications to the present scheme are unavoidable to make costs affordable given the very substantial sums which will have to be paid over many years to meet the past service deficit;**
- **The arguments against seeking fresh powers for the Church Commissioners to commit additional funds to the scheme remain compelling (paragraphs 56 -63 of our consultation paper are attached at Annex B for ease of reference);**
- **The support from dioceses (who are the ‘responsible bodies’ for 96% of scheme members) for maintaining the defined benefit scheme has significantly eroded over the past three years to the point where there is now a fairly even balance of views among the dioceses between those favouring its retention and those advocating a move to a hybrid scheme.**
- **Given the division of views we do not believe that there is a sufficient consensus for a decision now to abandon a defined benefit approach. We do believe, however, that work needs to be put in hand to explore in some detail how a hybrid scheme for the clergy might work.**
- **This further work should explore options that would be cost neutral compared with the present defined benefits scheme (as modified in the ways that we have proposed). The test of any new, hybrid scheme should be whether it has the potential to create more stable, sustainable and affordable arrangements for the long term while continuing to ensure adequate retirement incomes for clergy;**
- **The results of this exploratory work should be reported back to the Archbishops’ Council before the end of 2011. The Council should submit the report to the Synod with its recommendations. Any decision to introduce a hybrid scheme would be for the Synod itself to take.**

27. In the light of the many valuable comments received **we have decided to reaffirm the four proposals in the consultation document for delivering an affordable contribution rate.** We take each in turn.

Contracting In and Reducing Future Scheme Benefits

28. The proposal to **contract the clergy scheme into the state second pension (S2P)** and reducing the accrual of future scheme benefits is the one modification that will reduce the costs to the Church without, in general, reducing the overall benefits. Members will receive a lower benefit from the Clergy scheme in respect

of future service but a higher benefit from the State through entitlement to the State Second Pension (S2P).

29. For dioceses and other responsible bodies, the additional 3.3% that they will have to pay by way of employer's National Insurance contributions will be more than offset by the reduction in the contributions that they have to make to the Pensions Board in relation to the existing scheme. Overall this change will save them around **2.5% of NMS** net. For the clergy in general, the S2P that they will be entitled to for the first time will offset the fall in what they receive from the existing scheme.
30. The two points arising from the consultation exercise which require some clarification concern the additional National Insurance contributions that the clergy will have to pay and the risk of future changes in Government policy.
31. Overall, the National Insurance paid by clergy will increase by about 1.5% of the typical pensionable stipend (NI contributions are levied at different rates on different bands of earnings). Since actual stipend levels are set by the diocese rather than by the Central Stipends Authority it will be for each diocese to decide whether, in 2011, to compensate clergy by giving them an additional stipend increase of 1.5% or whether the clergy should meet the cost by what would, in effect, be a net reduction in income.
32. Reforms of state pension were put into law by the Pensions Act 2007². The number of qualifying years needed to receive a full Basic State Pension (BSP) will reduce to 30 years for both men and women with effect from next year; annual cost of living increases in BSP will be linked with earnings rather than prices by the end of the next Parliament at the latest; state pension age has already increased by up to 3 years to age 68 for both younger men and women who, as of now, still have many working years ahead of them; and S2P will move very slowly to become a flat rate pension for benefits built up after 2030.
33. The possibility of further changes in Government policy on state pensions is a real one, not least given the parlous state of the public finances. Nevertheless, changes to state pension arrangements are something that all Governments approach with a degree of caution given the considerable political sensitivity, and the changes made in 2007 had the broad support of the Official Opposition. Government is also better able than non- public sector providers of occupational pension schemes to manage funding pressures given the levers available to it through the ability to set taxation and National Insurance contribution levels.
34. We do not, therefore, believe that the intrinsic uncertainty of future government policy should be a deterrent to contracting the clergy scheme into S2P given the overall financial advantage achieved. Clearly if, in the future, there were to be radical reductions in overall state pension the Church would need to consider carefully the implications for clergy pensions at that point.

² <http://www.dwp.gov.uk/policy/pensions-reform/the-pensions-act-2007/>

35. There are two groups of clergy who will be unable to accrue S2P. Those working in the UK who have already reached their state pension age and the very small number who are working outside the UK and are not paying the higher (Class 1) rate of national insurance required to accrue the full range of UK state benefits (including S2P).
36. Most of those working outside the UK have access to local state benefits which are a good deal better than those available in the UK. Those over their state pension age still working in the UK will be paying no employee's NI at all. We have therefore concluded that it would not be justified to try to devise special arrangements for these two groups. The legal, financial and administrative complications of any such arrangements would in any event be very great and it would be impossible to create an exactly equal outcome given that individual circumstances will vary considerably.
37. In most cases the value of the reduction in or absence of NI paid by these members outweighs the lack of S2P accrual. Furthermore, for those eligible for the UK state pension, once state pension age has been reached individuals can receive increased state pension payments if they choose not to start drawing their entitlement whilst they are still working and receiving a stipend.

Indexing Increases in Pensionable Stipend

38. Pensions at the point of retirement are determined by length of service and by the level of the national minimum stipend (NMS) at that point. The Pensions Board currently calculates its liabilities on the basis that, in the long run, the NMS will compound by 1.5% a year above increases in the retail prices index (RPI).
39. This figure reflects previous policy that stipend increases should, as far as possible, not fall too far behind increases in average earnings which tend to exceed RPI. In relation to clergy stipends the experience over the recent past is as follows: **in the last forty years clergy minimum stipends have on average compounded by 0.5% above RPI, over the past thirty years by 1.4%, over the past twenty years by 0.7%, and over the past ten years by 0.4%.**
40. It is important to be clear that members of defined benefit schemes have no automatic or statutory entitlement to **any** annual uplift to their earnings while they are accruing pensions. The statutory protection that exists applies to pensions that are already in payment – which must be indexed by Limited Price Indexation
41. Clergy will, of course, reasonably assume, on the basis of past practice, that not only their actual stipend but also the NMS will increase over time, as prices continue to rise and the economy continues to grow. Nevertheless, they currently have to wait and see what the Central Stipends Authority – and in the case of actual pay, their own diocese – decides from year to year.
42. The Pensions Board's figure of RPI +1.5% p.a. is simply an actuarial assumption. Clergy cannot themselves plan on the basis that increases will be of that order. Indeed, as the figures in paragraph 39 show, such increases would be considerably greater than has been the case in the recent past.

43. In the consultation paper we proposed that the Archbishops' Council, as Central Stipends Authority, should adopt a new policy, namely that the NMS would in future increase in line with RPI only. This would not mean that the increase in any one year had to be exactly the same as RPI but that, taking one year with another, the Council would ensure that the NMS tracked average increases in RPI. This would enable the Pensions Board to construct a funding plan based on lower pensionable stipend inflation than its present assumptions.
44. We added two further important qualifications. In the first case the Church could not guarantee to match RPI increases however high they went. Secondly, this would be a policy ripe for review if at some point in the future the financial position of the pension fund had improved sufficiently **and** the deficit had been eliminated.
45. Capping future increases in the National Minimum Stipend to an average of RPI in place of the present assumption of RPI + 1.5% saves 9 percentage points on the contribution rate. That is because, as is evident from the illustrations published in August, a reduction in pensionable stipend, once compounded over many years, produces a significantly lower pensionable stipend at the time of retirement.
46. It would be wrong to gloss this hard truth. The reason why the cost saving is significant is because, over time, the potential accumulated reduction in benefits could be significant. It cannot be otherwise.
47. During the consultation exercise some suggested that a more generous cap might be adopted, for example by restricting future increases in the NMS to an average of RPI + 0.5% or 0.75%. We have sympathy with the concern that lies behind these suggestions. Nevertheless, there is no way of providing a higher cap without increasing the contribution rate further or finding alternative ways of reducing benefits. Each 0.5% above RPI adds 3 percentage points to the cost of the scheme.
48. From all that we have heard we do not believe that dioceses as a whole regard a pension cost of more than around 42% of NMS as sustainable. Of that, around 17 - 19% of NMS will be necessary to eliminate the past service deficit over the next 15 years. In addition we have been unable to identify alternative cost saving options which would not, in our view, be more difficult than capping NMS increases to RPI.
49. Some mitigation of the impact of limiting of NMS to RPI will be provided by the fact that the S2P element of the pension will be indexed to average earnings prior to retirement (with price inflation post-retirement). In addition the Pensions Act 2007 (see paragraph 32) provides for the Basic State Pension to move from price to wages indexation. This is due to happen in the course of the next Parliament.
50. Our recommendation, therefore, is that the NMS should in future rise on average in line with RPI, subject to the need to review the position if high levels of inflation establish themselves and once the deficit on the pensions fund has been cleared.

51. We see no option but to contain the costs of the scheme by making this change. It is likely, over time, to lead to a growing gap between the level of actual stipend being paid and stipend on which the pension is calculated and a reduction of the value of the full pension as a percentage of actual stipends in payment at the point of retirement.
52. It is, however, a step that other organisations faced with spiralling pensions costs have had to take. Indeed, we know that by linking the NMS to average changes in RPI we shall be adopting a more generous policy than, for example, Marks and Spencer who have now capped the annual increase in employees' pensionable pay in their DB scheme to just 1%.

Increasing the Pension age for Future Service

53. It is important to be clear that we are not proposing that from 2011 everyone should have to work until 68 before being able to draw a pension. **What we proposed in the consultation document and reaffirm now is that any pension earned from 2011 onwards should become payable at the age of 68 rather than 65.**
54. All pension earned before 1 January 2011 would continue to be payable, without reduction, at 65. All entitlement after that date would be based on retirement at 68 and benefits earned from that point on would be reduced for early payment if retirement is taken before 68. This means that the greater impact of changing the pension age for future service will affect clergy with more service to complete than those who are within a few years of the present pension age of 65 where the impact of the change will be very small.
55. During the consultation exercise concerns were expressed that some clergy might feel compelled to stay longer than would be sensible and than they would wish in order to earn more pension. This, it was argued, could be inimical to the mission of the Church.
56. There is no simple answer to this, though it is important to remember that age discrimination legislation is founded on the premise that stereotyping should be avoided, given that research suggests that individual capabilities do not correlate neatly with age. It is also relevant to note that a significant proportion of clergy already decide to retire before the pension age of 65 and take an actuarial reduction for early payment.
57. As we see it, the Church has for a long time been more advanced than many organisations in providing much more flexibility over its retirement arrangements. Only those who have abolished retirement ages altogether have gone further. Our expectation is that in practice an increase in the pension age from 65 to 68 for future service is unlikely to reduce the range of choices that individuals will continue to make about their retirement date.
58. It has been suggested during the consultation exercise that this particular change should be introduced for those younger members who have higher state pension ages than 65. The clear advice we have received, however, is that even if the

difference of treatment in the pension scheme were linked to the changes in state pension ages, it would be vulnerable to successful challenge under age discrimination legislation.

59. An alternative suggestion has been that the higher retirement age could be introduced for future service from some point in the more distant future when a greater proportion of members will have the higher State Pension Age. That, however, would heavily dilute the saving of 2.5 percentage points on the contribution rate secured by making the change for future service now. It is also the case that the application of the higher pension age only to that part of pension accrued after the change is made provides a form of phasing mechanism.
60. **We continue to recommend therefore that from 1 January 2011 the pension age for future service should increase from 65 to 68.**

Increasing the Accrual Period for Future Service

61. Again, this is a change that will make no difference to service that has already been earned. But with people living, on average, ever longer after retirement it is becoming inevitable that the span of the working life should increase if the financial burden of providing adequate pensions is not to become unsustainable.
62. **We therefore recommend that from 1 January 2011 the accrual rate for future service should be based on a full clergy pension being earned over 43 years rather than 40 years.** This will reduce the contribution rate by around 2.4 percentage points..
63. In the consultation period some suggested that an increase to 43 years should be accompanied by an increase in the current mandatory retirement age beyond 70 in order to make it possible for more people to earn a full pension. We have sympathy with that argument.
64. Nevertheless, increasing – or indeed abolishing – the mandatory retirement age could not be achieved simply by amending the rules of the funded pension scheme. The retirement age for ecclesiastical office holders is prescribed by Measure and could only be changed by fresh primary legislation – whether by a further Measure or by a Government inspired change in the law of the land relating to retirement ages more generally.
65. The Government is currently considering the whole future of mandatory retirement ages and we believe that the Church will need to return to this issue in the light of whatever conclusion this or the next Government reaches.
66. Those who advocate abolishing retirement ages altogether, as has already happened in some other countries, do, of course do so within a framework which assumes that there are adequate capability procedures for dealing with those who are no longer able to fulfil the requirements of their post. Although capability procedures will be significantly extended in the Church once the clergy terms of service legislation comes into force it will remain the case that there will still be many clergy not subject to a capability procedure. So, whatever conclusion the

Government reaches more generally, there will be some further specific work to be done within the Church if the retirement age is to be changed or abolished.

The Cost of the scheme

67. **The four changes that we recommend will reduce the cost of the scheme by around 15 percentage points in relation to the NMS.** This is slightly less than the sum of the four individual changes because, when taken together, there is some overlap between the individual ingredients that make up the savings.
68. We cannot **guarantee** that this will result in a cost of 42%. That must depend on the valuation of the fund as at the end December. The figure could be higher or lower than that. The chances that it will be significantly higher are, in our view, small, given the unlikelihood of the markets reverting to the exceptional conditions of 2008.
69. It will be for the Pensions Board to determine the rate that the funding bodies must pay in order to enable the trustee to manage the fund in a way that honours the promises that have been made. But given all the uncertainties and instability of recent years it does seem to us that **it would be right for dioceses and other responsible bodies to plan on the basis that the cost, including the amount needed to eliminate the past service deficit, is going to be in the region of 42% for the foreseeable future.**
70. In view of the sacrifices that clergy are being asked to make in order to keep the scheme within affordable bounds it seems to us that they are entitled to expect that the funding bodies will go on committing the same level of funds for the foreseeable future rather than looking to make savings if more favourable market conditions transpire.
71. Indeed, given the very large deficit which will remain to be paid for many years it would seem to us better for any easement in market conditions to be seen as an opportunity for strengthening the funding of the scheme and building in some margin against the possibility of further market deteriorations or unforeseen improvements in longevity in the future.
72. There is a broader point. Clergy and dioceses both yearn for a period of stability. Continually having to return to questions about the costs and affordability of the pension scheme is unsatisfactory for all concerned. We believe that the four changes that we have proposed will greatly reduce the risk of further instability in the short to medium term.
73. But pension promises extend so far into the future that the cost of honouring them cannot be insulated from events as they unfold. There can be no certainty in these matters. While on the face of it, therefore, the present defined benefit scheme appears to offer a greater degree of protection for individual clergy than other possible scheme models, in the long run its intrinsic risks are shared by the whole Church, funders and beneficiaries alike.

74. There is one further set of possible changes that has been proposed since the publication of our consultation documents in June. In September DRACSC published the results of a review of early retirement and ill health arrangements conducted by a group chaired by the (now retired) Bishop of Warrington.
75. That report recommended changes to the pension rules which, if implemented, would reduce the cost of the contribution rate by 1.3 percentage points, though the saving would to some extent be offset by the provision of additional occupational health services.
76. We have not taken that separate work into account in our own recommendations. Whether the proposals made should be implemented and, if so, whether to make the rule changes in 2010 at the same time as those needed to give effect to our proposals is for the Archbishops' Council and the Synod to determine.

Defined benefit, defined contribution or hybrid?

77. The recognition that risk is, to some extent, already shared between funders and beneficiaries is a helpful way in to considering the relative arguments for retaining the present defined benefits scheme, moving to a defined contributions scheme or adopting some kind of hybrid.
78. Although defined contributions visibly transfer more long term risk to the scheme member, the sheer unpredictability and indeed volatility of the cost of defined benefit schemes has increasingly forced funders in recent years to keep reassessing what they can afford and, in consequence, reviewing the scale of benefits provided. The package of changes that we propose will constitute the second significant change of the benefits package in just three years. Our assessment is that we are now reaching the limits of the changes which it is possible to contemplate to the present scheme.
79. What is however clear to us, in the light of the consultation exercise, is that **the present fairly even balance of views over retaining the defined benefits scheme does not provide a sufficiently secure basis for taking what would in practice be the irrevocable step of abandoning it.** Given the relatively modest levels of clergy stipends and the special challenge of retirement housing following years in tied accommodation, there remains a strong, though no longer conclusive, reservoir of support for retaining defined benefits if at all possible.
80. What is equally clear is that there is a greater openness to change than was manifest three years ago. Three years ago 40 dioceses expressed support for sticking with DB; this time of the 42 English dioceses the number is 18 (with various levels of qualification) with 18 preferring hybrid (again, some with qualifications) , 2 supporting defined contributions and 4 unable to express a clear preference. Even among those strongly committed in principle to a DB approach for clergy there is now a recognition that the jury is out over whether it will prove sustainable in the long term.
81. As we said in our consultation document it is, at the moment, "particularly difficult to judge whether the sudden and massive ballooning in the pension fund

deficit should be seen as the final death knell for a model of pension provision that was already becoming increasingly expensive and risky for employers or whether this is simply a particularly violent storm which, if it can be ridden out, will eventually give way to calmer waters. If the latter is the better view then this is the moment for taking action which stops short of being irreversible. If the former view is correct then this is the moment of crisis that provides the opportunity for doing now what will sooner or later become unavoidable in any event.”

82. **Our recommendation is that this is not the moment for taking irreversible action.** By common consent last year’s financial crisis was exceptional and it is simply too soon to judge what the longer term consequences will be.
83. At the same time, we do not believe that it would be sensible simply to wait another three years and then face the possibility of a further major upheaval over clergy pensions then. **The recommendations that we have made may well prove to be the last determined attempt to reshape the present DB scheme into something that will prove sustainable.**
84. Only events will tell whether they are sufficient. We believe that there is a reasonable chance that they will. But, against the possibility that events move against us, **we recommend that work be put in hand to explore in some detail how a hybrid scheme for the clergy might work.**
85. This further work should explore options that would be cost neutral compared with the present defined benefits scheme (as modified in the ways that we have proposed). **The test of any new, hybrid scheme should be whether it has the potential to create more stable, sustainable and affordable arrangements for the long term while continuing to ensure adequate retirement incomes for clergy.**
86. **The results of this exploratory work should be reported back to the Archbishops’ Council before the end of 2011.** The Council should submit the report to the Synod with its recommendations. Any decision to introduce a hybrid scheme would be for the Synod itself to take at the time.
87. **It is important to be clear that by agreeing, as we hope it will, the immediate changes we propose to the present scheme, the Synod will not be expressing even a provisional view on the merits of adopting a new scheme in due course. Indeed by making the changes proposed it will be giving the present scheme a realistic chance of recovering from its present difficulties.**
88. The uncomfortable truth is that the substantial enhancements to the pension scheme that were introduced during the 1980s were not adequately costed at the time (with grave consequences for the Church Commissioners’ funds which quickly became apparent).
89. In addition, when the funded scheme was introduced in 1998 there was excessive, albeit understandable, concern from the participating employers to try and keep contribution rates down to as low a level as the trustee and actuary felt able to accept. We need to learn the lessons from past misjudgements and chart a way

forward that avoids wishful thinking on the one hand or excessive timidity on the other.

90. This includes being clear about the special nature of the relationship between the Church and its clergy. This has been referred to by many people in the course of the consultation exercise. It is important to be clear both what it is and what it is not.
91. It does not, in our view, mean that clergy can reasonably look to the Church to shield them completely from the same financial realities as are faced by their parishioners. The many clergy we have spoken to well understand that and recognise that the sort of changes that we have had to contemplate are the result of events over which the Church has had no control.
92. Equally, the clergy are entitled to expect that the Church will take seriously the special nature of their calling and the particular constraints and challenges that flow both from being paid a stipend rather than a salary and from being required to be in tied housing until retirement.
93. **In our view, that means that the Church will have a continuing responsibility to ensure that clergy have adequate income in retirement and have access to affordable accommodation when they do not have the means to house themselves.** The continued existence of the CHARM scheme will therefore remain crucial for clergy who need help with accommodation in retirement. So will the maintenance of a good occupational pension scheme over and above what is provided by way of state pension.
94. **We believe that our recommendations for four immediate changes to the present defined benefit scheme from 1 January 2011 will greatly increase the chance of stabilising that scheme at an affordable level for the long term.** But the experience of the past decade suggests that some caution and humility are wise when offering any predictions about the future costs of pensions.

Andrew Britton

Jonathan Spencer

Andreas Whittam Smith

November 2009

Consultation analysis

This is an analysis of responses to **Clergy Pensions: A consultation from the Archbishops' Task Group** published in June 2009. The first part records in some detail the views of dioceses which fund the contributions of the vast majority of members. The second and third part briefly summarise responses from other responsible bodies and groups, and from individuals. A list of all respondents is attached at the end.

Summary

- **A majority agree that the target cost from 2011 should be around 42%. Many point out that this means closer to 45% if dioceses compensate clergy for increased NI contributions. Several say that this is the limit of affordability.**
- **A significant minority say that 42% is too high.**
- **There is strong support for contracting into S2P.**
- **Increasing the pension age to 68 is accepted: some would prefer to see it phased more slowly.**
- **Increasing the accrual period from 40 to 43 years is accepted: there are concerns about the interface with the clergy age limit of 70.**
- **It is accepted as necessary to cap future increases in National Minimum Stipend at RPI: there is concern about erosion of value.**
- **There is equal support for the defined benefit scheme as for a hybrid scheme.**
- **A change to a completely defined contribution scheme has little support.**
- **Changes to enable the Church Commissioners to take greater responsibility for the funded scheme are suggested by some dioceses.**
- **There were many calls for a review of the whole remuneration package.**

Part 1. Diocesan Responses

1. We have heard from all 42 English dioceses. Together they pay the contributions for 8,284 active members – 92% of the active membership. Many explained how they have consulted with clergy and laity at bishop's councils, finance committee meetings, and special pension presentations. Clergy have been invited to contribute their views via email and intranet.

Question 1

Do you agree that the target contribution rate from 2011 (including for paying the past service deficit) should be around 42%?

32 dioceses agreed

10 disagreed

2. Among those who agreed many said that this was the upper limit for them. Several pointed out that it was really 44.1% because they feel obliged to increase stipends in order to compensate clergy for the increased employee NI contributions.
3. Of those not agreeing, two said it should be higher if needed and one suggested a further year at 45% whilst more work is done. The other 7 all said it should be less.

Question 2

Of the three possible models, do you prefer: Model 1; Model 2; or Model 3?

4. It was quite difficult to put firm numbers on this because although most dioceses did select one of the options this was often with doubts and qualifications. Reading the responses as a whole one is struck by the hesitation and real difficulty in reaching a decision that many had.

18 dioceses preferred Model 1, the existing defined benefit scheme.

2 dioceses preferred Model 2, a defined contribution scheme.

18 dioceses preferred Model 3, a hybrid scheme that incorporates a defined benefits element and a defined contributions element.

4 did not feel able to express a preference

5. Four of the 18 dioceses preferring Model 1 also said a contribution rate of 42% was too high – two made it clear that unless the contribution rate could be lower they would opt for the hybrid. A further eight of those choosing the DB scheme explicitly said that if it was to cost any more than 42% they would choose the hybrid.
6. Several choosing the hybrid model said they preferred it because it shares risk.
‘It is unreasonable to expect the funding bodies to bear all the risks of the scheme.’

It was felt that greater risk sharing could reduce the need for frequent major reviews.

7. However, it was felt by many that there were important as yet unanswered questions about the detail of the hybrid model. Some felt that the DB scheme should be maintained whilst work was done to design and consult on a new scheme.
8. One diocese choosing DC said there was no support at all for maintaining DB and that Model 3 was a ‘typical C of E compromise’.

Question 3

Are there any variants to one or other of the three options for change models that you would wish to propose?

9. Most dioceses answered this question by commenting on the changes common to each model. Other issues have been included in the analysis of Question 4.

(a) Opting into S2P

10. Those that commented on this element were in favour. Some said the arrangements should be revisited if state pension deteriorates. There were also questions about the impact of opting in on the lump sum and survivor’s provision.
11. One diocese pointed out that the increased NI will come on top of the 0.5% increase in employer and employee contributions announced in the April budget (a

further 0.5% increase has since been announced in the Chancellor's pre-budget report) . Another asked whether salary sacrifice could reduce the impact of NI increases.

(b) Increasing the accrual period for full pension from 40 to 43 years for all future service

12. Thirteen dioceses said that the compulsory retirement age of 70 should be reconsidered. More than one commented that with 28 the earliest starting age for most deacons, it would not actually be possible to accrue a full pension before mandatory retirement at 70.

(c) Increase the pensions age for future service to 68

13. This was accepted as inevitable by most. However, ten dioceses said they would prefer to see this phased in line with the state pension age increases. One suggested that the increase in the retirement age should be conditional on the occupation health provision proposed in the ill health benefit review. This chimes with the concerns of others that clergy might be obliged to work on longer than they were really fit to.

14. One diocese observed that if this change results in later retirements then benefits accrued on the basis that they can be drawn at 65 will actually be drawn later – benefiting the pension fund.

(d) Cap future increases in NMS to RPI

15. Ten dioceses were concerned about potential erosion. Three suggested that the cap might be slightly higher than RPI, another urged that there be a commitment to making one-off increases if the gap between pay and pensions grows too much.

Question 4

Do you have any other comments?

16. A wide range of related issues were raised, some of them by several dioceses.

(i) Comprehensive review of remuneration package

17. Fifteen dioceses called for a more comprehensive review of the remuneration package, especially before any move to a defined contribution element.

(ii) Possible help from the Commissioners

18. Seven dioceses suggested that the Commissioners should do more to help. Two set out detailed suggestions of how this could be achieved. One said,

‘The Church has in the CC an organization with significant investments, strength and proven ability to manage those investments well. It should play to its strengths in support of its clergy.’

19. Others felt it was undesirable for the Commissioners to step in.

‘Although the reduced distributions would have little impact on this diocese, it was agreed that it would be a mistake for the Church Commissioners to clear the deficit.’

20. One said that whilst it fully accepted the arguments against CC intervention set out by the Task Group, a more authoritative and comprehensive explanation was needed in order to convince the parishes.

(iii) Housing and the lump sum

21. Thirteen responses raised the issue of retirement housing. On the one hand some suggested that as more clergy are managing to purchase a house before they retire the lump sum could be reduced. On the other hand some were worried that the demands on CHARM would increase because those who have not managed to buy a house will need more capital for longer. Combining these two strands one diocese suggested that money saved by reducing the lump sum could resource the CHARM scheme.

(iv) Technical provisions and the recovery period

22. Seven dioceses suggested that the recovery period should be longer with two suggesting that diocesan property assets could be used to provide cover. At the same time there was a request for greater prudence in assumptions to reduce the likelihood of more nasty surprises.

23. Four dioceses suggested that the Task Group's assumptions about the position at the next valuation were too gloomy, and that it would be wrong to make irrevocable decisions now. However one diocese fears that the position at the actual valuation date may be worse.

24. There was a call for simple, regular reports from the Pensions Board to provide greater transparency.

‘We suggest the Board becomes more transparent by publishing more information, by better informing and consulting the bodies responsible for funding it, and perhaps by having more regular reports to the General Synod.’

25. One diocese commented on the markedly better performance of the Commissioners' funds as against the pension fund, it and one other suggested that management of the pension fund be transferred to the Commissioners.

(v) Scheme design

26. There were a number of interesting suggestions about the design of a hybrid scheme. One diocese suggested that a Career Average Revaluation model might be used; two asked that a cash balance scheme be considered.

27. Some said a new scheme should allow clergy to make voluntary contributions. Others suggested compulsory contributions, although the widespread view that clergy must be compensated for their increased NI contributions reveals a paradox here.

28. There were worries about increased complexity, and suggestions for a presentation of the basis of accrual that is easier to understand. Three dioceses called for greater financial education and access to independent financial advice for clergy. One simply stated that clergy do not possess the skills to manage their own investments (the cleric quoted by another diocese has a view about why that is):

‘Over the years the remuneration policy has flowed from the sentiment, “we won't pay you very much, but we'll house you and look after you in retirement.” This has been a disastrous policy for many clergy who have become naively passive regarding their finances and have failed to make adequate arrangements for their retirement either in finance or housing’

29. It was pointed out that structural changes offer the chance to re-think pension differentials. And more than one diocese said that even with the proposed changes the scheme would still be generous compared to those of other employers.

30. Seven dioceses suggested that any move away from DB should be for new entrants only. But another diocese where this particular point had been thoroughly discussed said the conclusion was reached that ,

‘It was not Christ-like to sacrifice the future of our younger clergy to make things more comfortable for those retiring in the shorter term’

(vi) The relationship between church and clergy

31. Eleven dioceses mentioned the nature of the relationship between stipendiary clergy and the Church,

‘Because of the unique nature of the motivation and service ethos of clergy life, I don’t think one can apply normal secular thinking on pensions.’

But another said,

‘We have an overall pattern of small congregations on modest incomes struggling to maintain expensive sites whilst at the same time being asked to increase their contribution to clergy benefits that are considerable in excess of their own.’

‘One Body’

30. Although the votes for Model 1 and Model 3 were evenly balanced as a whole there is somewhat of a provincial divide on Question 2. Fifty-four per cent of the Canterbury province chose Model 1, whilst only a third of dioceses in the York province chose Model 1 with two-thirds preferring Model 3.

31. In respect of individual issues dioceses in the province of Canterbury were more concerned about a) the increase in the accrual period to 43 years, b) the transfer of risk to clergy, c) retirement housing, and d) the relationship between church and clergy. Dioceses in the York province more frequently mentioned the need for a full review of remuneration and deployment, and having separate arrangements for new entrants.

32. We also analysed responses according to whether respondents were recipients of stipend allocations or not. There was no significant difference in their views.

Part Two. Responses from other bodies

33. As well as the dioceses there are 198 other responsible bodies which together make contributions for 686 active members. Responses were received from 18 of them. We also received submissions from the Retired Clergy Association (RCA), the Dean of Jersey, the Chair of the Clergy Chairs and Unite the Union.

34. Of the 18 non-diocesan responsible bodies responding three-quarters agreed with the 42% contribution rate, one of the others said go higher, the rest said that 42% was unaffordable. Model 2 was choice of the majority. A third chose Model 1, just under a half (including the Church Army with 72 active members), chose Model 2. A quarter, including the Church Commissioners, with 357 active members, chose Model 3.

35. The Church Army said that if investment and longevity assumptions continue to prove too weak it will be impossible to hold contributions at an acceptable level; each year that elapses under a final salary scheme adds to the size of the DB liabilities and so increases the risk. It felt that Model 2 offered the ‘simpler, cleaner and better understood’ option and would be prepared to pay a slightly higher contribution to make this option more acceptable.

36. The Church Commissioners welcomed the Task Group’s recommendation that none of their capital be used to help meet the funded scheme deficit. They agreed that a contribution rate of 42% was about right and preferred a hybrid scheme, saying that as trustees concerned with inter-generational fairness they have an objective to achieve stability in the level of support to other beneficiaries. Moving away from a defined benefit scheme would not provide an easy solution as the existing deficit will still need to be paid off. The Governors urged that,

‘proper time should be taken to develop a new scheme which is sustainable over the long term and strikes an appropriate balance between different generations of clergy.’

37. Of the other bodies that responded, the RCA agreed with the 42% rate, and supported the hybrid scheme. It suggested that the compulsory retirement age should be raised from 70 to 75. Unite the Union were not convinced that a 42% cap was necessary and suggested that savings could be made elsewhere. They had surveyed their membership and all of the members who responded wanted to see the defined benefit scheme maintained.

38. The Dean of Jersey and the Chair of Clergy Chairs echoed a number of the concerns raised by dioceses, and wrote of their dismay that further changes to the scheme were needed. The Chair of Clergy Chairs called for a holistic response that took account of the various elements of clergy remuneration. The Dean asked a particular question about how opting in to State Second Pension would impact on clergy in the Channel Islands.

Part Three. Responses from individuals

39. We received 107 other responses, from individuals, and bodies such as PCCs and a deanery chapter. Of those that addressed the questions in the report, the greatest number supported the hybrid model. Other issues raised by a significant number were:

- the provision of housing in retirement, (8)
- differentials, (8)
- clergy should contribute to pension, (9)
- concerns about the proposals to increase the retirement age, (14)
- the use of funds from Commissioners or dioceses to pay off deficit, (9)
- moral issues relating to the ‘covenant’.(17)

Part Four. Respondents

List of those responding to the consultation

Dioceses

Bath and Wells
Birmingham
Blackburn
Bradford
Bristol
Canterbury
Carlisle
Chelmsford
Chester
Chichester
Coventry
Derby
Durham
Ely
Exeter
Gloucester
Guildford
Hereford
Leicester
Lichfield
Lincoln
Liverpool
London
Manchester
Newcastle
Norwich
Oxford
Peterborough
Portsmouth
Ripon and Leeds
Rochester
St Albans
St Edmundsbury and Ipswich
Salisbury
Sheffield
Sodor and Man
Southwark
Southwell and Nottingham
Truro
Wakefield
Winchester
Worcester
York

Other Responsible Bodies

Bible Talks Trust
Church Army
Church Commissioners for England
Community of St John the Baptist
Emmanuel College, Cambridge
Fitzwilliam College, Cambridge
Girton College, Cambridge
Latimer Trust
Lincoln Cathedral
Lincoln College, Oxford
Mission in the Economy
Ripon College, Cuddesdon
St Georges Windsor
St Johns College, Nottingham
St Mary's Trust, Basingstoke
St Monica Trust
St Paul's Cathedral
The Church in Binley Woods
Wycliffe Hall

Corporate Responses

General Synod members from Coventry diocese
Guildford Diocesan House of Clergy
Lambourn PCC
Redlynch PCC
Retired Clergy Association
Towcester Deanery
Unite the Union
Whitkirk Deanery Clergy
Wolverton PCC
Worcester House of Clergy

Individual responses

Susan Atkin*
The Right Reverend John Bickersteth
Pam Bishop
Paul Blackham
The Right Reverend Pete Broadbent*
The Venerable David Butterfield
Graeme Buttery*
The Reverend Duncan Campbell
The Reverend Edmund Cargill Thompson
The Reverend Simon Chapman
The Reverend Ian Cohen
The Reverend Stephen Coles*
The Reverend Stephen Cooper
Harry Cranston
The Reverend Stuart Currie
The Reverend Tony Davies
Christopher Daws
The Reverend Paul Dawson
The Reverend Philip Dennison
The Reverend Penelope Dobbin
The Reverend Andy Dodwell
The Reverend John Edmondson
The Reverend Peter Findlay
Anne Foreman
David Freeman
The Venerable David Garnett
Robert Garvin
The Reverend Jonathan Gibbs
The Reverend Meg Gilley
Jill Haines
The Reverend David Hall
Paul Hancock*
Dr Peter Harland*
The Reverend Oliver Harrison
The Reverend Janet Henderson
The Reverend Dean Henley
The Reverend David Heywood
The Reverend Richard Hibbert*
Pete Hobson*
Charles Hodgson
Hugh Homan
The Reverend Charles Hope
The Reverend Hugh Hoskins
The Reverend Adrian Hough
The Reverend David Houlton
The Reverend Simon Howard
Dorothy Howarth
Julie Humphries
The Reverend Mark Ireland*
The Right Reverend Martyn Jarrett
The Reverend Stephen Jones
Tony Keating
Paul Kerr
The Very Reverend Robert Key
The Reverend Peter Lawley
The Reverend Christopher Levy
The Reverend Duncan Lloyd-James
The Reverend Stephen Lowe
The Reverend Patrick Malone
The Reverend Charles Marnham
Martin Mays-Smith
The Reverend Stuart Mitchell
Wayne Morris
The Reverend David Muir
John Nash
The Reverend Tim Oakley
The Reverend Gordon Ogilvie
The Reverend James Packman
The Reverend Tim Platts
The Reverend Robert Politt
Peter Pooley
Margaret Price
The Reverend David Randell
The Reverend Sian Reading
David Rees
The Reverend Clive Richardson
Keith Rushforth
The Reverend John Scott
Robert Scrase
Peter Smith*
The Reverend Jim Spence
The Reverend Charles Stewart
The Reverend P Such
David Tackley
The Reverend Simon Taylor
The Reverend Moray Thomas
The Reverend J M Thompson
The Reverend Richard Turnbull
The Reverend Ian Walker
The Reverend Cathi Williams
The Reverend Shamus Williams
Shirley-Anne Williams*
The Reverend Dr Dagmar Winter*
The Reverend Ruth Yeoman*

* indicates member of the General Synod

56. There have been some suggestions that instead of passing the full cost on to the dioceses, the Pensions Board might instead look to the **Church Commissioners to help**, for example by transferring capital to the Funded Pensions Scheme to offset the past service deficit or to take on responsibility for meeting the cost of pensions to a later date than the end of 1997.
57. The first thing to say about this suggestion is that, even if it came to command widespread support, it could not be implemented in time for April 2011. The Church Commissioners currently have no powers to help in this way. Primary legislation would be required and the process of taking that through the Synod and subsequently obtaining Parliamentary approval (which in this case would be far from a formality) would probably take two to three years.
58. Secondly, and more fundamentally, however, it would not be a free lunch. If the Commissioners were to take on additional pension liabilities they would immediately have to reduce the amount they made available for distribution for non-pensions purposes, including to the less well resourced dioceses through the Darlow formula. Given that the amount available for distribution from 2011 is already likely to be constrained as a result of last year's fall in asset values this could have serious consequences for those dioceses.
59. Some may consider, however, that reducing distributions could, though regrettable, be a price worth paying in order to sustain something so important for the morale of the clergy, which is itself so important for the wellbeing of the Church of England. We have considered that argument carefully.
60. An important consideration, in our minds, is that the historic assets of the Commissioners are already being used to pay for pension benefits earned before the funded scheme was introduced in 1998. To disperse even more of these assets would be meeting more of today's liabilities at the expense of future generations.
61. **It would in our view be a mistake to fall back into the old, pre-1998, ways of meeting today's bills with tomorrow's money. To deny to future generations the support for ministry and mission that the permanent endowment is meant to produce would in our view be very hard indeed to justify. There is a question of inter-generational justice here.**
62. When the Board of Governors of the Church Commissioners discussed our scene-setting note recently it did not believe that even more of the Commissioners' funds should be earmarked to meet the costs of clergy pensions. Similarly, **it seems to us that reopening the settlement reached in the 1990s about the relative responsibilities of the Commissioners and the dioceses would be unwise.**
63. There is a separate question to be addressed as to how the money made available by the Church Commissioners for distributions should, from 2011, best be used to meet need and opportunity in parishes and dioceses. But that is the matter of

separate consultation. It is quite different from any idea of imposing by legislation additional responsibility for pension funding on the Commissioners. We do not believe that such a course should be pursued.