

CLERGY PENSIONS

Report from the Archbishops' Council

1. At the February Group of Sessions the General Synod had three debates relating to clergy pensions. The first, and most substantial, was on a report (GS 1758) from the Archbishops' Council proposing significant changes to the scheme in the light of a substantial deficit in the pension fund.
2. Our report commended recommendations drawn up by the Archbishops' Task Group on Clergy Pensions in the light of a consultation exercise with Bishops' Councils and other bodies responsible for funding the pensions scheme. A copy of the recommendations is attached at Annex A.
3. The Synod endorsed the package of proposals from the Council by 273 votes to 14 (with 8 abstentions.) Since February there has been the necessary statutory consultation with members of the scheme.
4. Secondly, the Synod considered a report from a group chaired by the then Bishop of Warrington on early retirement and ill-health pensions (GS 1759). The Synod endorsed the recommendations in the report, a copy of which are attached at Annex B. Those which involved changes to the pension scheme's rules were included in the wider consultation exercise of scheme members.
5. Thirdly, the Synod voted in a vote by Houses (Bishops 12 to 2 with 3 abstentions, Clergy 98 to 23 with 10 abstentions, Laity 77 to 59 with 9 abstentions) in favour of a Private Members' Motion from the Revd Mark Bratton calling for the surviving civil partners of deceased clergy to have the same pension rights under the Clergy Scheme as surviving spouses. The Pensions Board, Archbishops' Council and, in respect of pre-1998 service, the Church Commissioners, have prepared the necessary rule changes to give effect to the Synod's decision.
6. A copy of the three motions passed by the Synod in February is attached, for ease of reference, at Annex C.

Actuarial Review

7. Since February, the Pensions Board has received the results of the triennial actuarial valuation of the fund. The recovery of the financial markets in 2009 meant that the deficit was not as large as it had been at the end of 2008 when the Archbishops had reconvened the Task Group and invited it to prepare options.
8. Nevertheless, at £298m the deficit was still more than twice the £141m at the time of the last triennial valuation as at 31 December 2006. A further funding and recovery plan has to be set in place and, without substantial changes to scheme benefits, it remains the case that the Pensions Board would have to set a contribution rate some way above 50%.
9. The Pensions Board still has work to do to make final decisions on what would, in all the circumstances, be a prudent set of assumptions to underpin the new funding plan and – crucially – it needs to know what, if any, changes are to be made to the benefits package before it can set a new contribution rate with effect from 1 January 2011. It aims to do so in September, which would give certainty on this point to the dioceses as they firm up their 2011 budgets.

10. What it has, however, said to the dioceses is that, in the light of the figures it now has, it will need to set a contribution rate that, taken together with the additional employers National Insurance contributions that are required from opting into the State Second Pension, produces a total cost which would not be more than 42% of the pensionable stipend, assuming the full package of changes agreed in principle in February goes ahead.

Consultation

11. A summary of the consultation results is set out in the table below. This analyses those in favour of the proposals and those against, those who ticked they had no opinion and those who skipped the question altogether.

	Agree	No opinion	Disagree	No answer
	%	%	%	%
Overall package to make scheme affordable	49	9	37	5
Opt into State Second Pension (S2P)	51	12	27	10
National minimum stipend to be linked to RPI	44	8	38	10
Pension age change: 65 – 68 years for future service	46	7	37	10
Accrual period for full pension: 40 – 43 years for future service	33	9	48	10
Ill-health changes (as per GS 1759)	49	21	21	9

12. The response rate in the survey was 15.9% of scheme members which is better than the 13.68% achieved in 2006. The consultation exercise in 2007 involved all 24,804 members of the scheme because of the changes proposed then impacted all members. This time the change affected only the scheme's 8882 active members. The response rate from active members last time – 16.14% – was slightly higher than on this occasion. IDA, the independent firm which ran the current consultation exercise, have commented that a 15.9% response is a 'good response rate' which provides 'excellent statistical confidence limits'.

13. As can be seen from the annex there was clear support for opting the Clergy Pension Scheme into the State Second Pension. There was also support for the proposition that the overall package was a fair way of making the scheme affordable, the proposed indexation of the National Minimum Stipend and the increase from 65 to 68 in the pension age for future service. The majority of those consulted, however, disagreed with the proposed change in the accrual period for a full pension from 40 to 43 years for future service.

14. The proposed changes to ill-health retirement benefits were endorsed by the majority of those who responded to the consultation document.

The Council's recommendations

15. It remains a matter of great regret that any changes have to be made to the Clergy Pension Scheme on grounds of affordability. But the Church of England finds itself in a similar position to other organisations faced with large deficits in their pension funds.

The difference is that the Church of England, unlike most organisations outside the public sector, is still proposing to retain defined benefit arrangements for clergy in respect of future service.

16. The recovery in the markets last year falls a very long way short of resolving the difficulties that prompted the main report that came to the Synod in February and the reduction in gilt yields has actually led to a worsening of the funding position for many pension schemes. Even with the changes proposed, the Pensions Board will have to set another substantial deficit recovery period, perhaps of a further 15 years.
17. In addition, the cost of contributing for clergy pensions, which until the end of last year was 39.7% of pensionable stipend and has, since then, been 45% on an interim basis, looks unlikely to fall back below 40%, inclusive of the extra employers' National Insurance contribution, for the foreseeable future. This compares with the 21.9% when the funded scheme was introduced in 1998.
18. Three years ago many dioceses saw 40% as being at the limits of affordability and there was strong support from the dioceses last year for seeing a figure of 42% as the effective maximum. Dioceses which choose to increase stipends to compensate their clergy for the extra employee's NI they will pay as a result of contacting into the State Second Pensions will have additional cost equivalent to around 1.8% (taking into account the additional tax and ENI paid by clergy on the required stipend uplift).
19. Against this background and in the light of advice from DRACSC and the Archbishops' Task Group following the consultation exercise the Council is satisfied – subject to one point – that it should advise the Synod to confirm the decisions that it took in principle in February and proceed to make the necessary rule changes.
20. The one point that has required further consideration in the light of the consultation is the proposal to extend the accrual period for a full pension to 43 years for future service. A clear majority of those consulted opposed this change.
21. A number of those who added comments alongside their vote noted that, with a mandatory retirement age of 70 and a training period of 2 or 3 years before entering ordained ministry an accrual period of 43 years would make it very difficult for all but a very few clergy to earn a full pension. There was a question whether having a full pension that hardly any clergy would be able to earn was reasonable.
22. The Council accepts the force of this and agrees that, in an ideal world, it would be better to return to the question of the accrual period when the mandatory retirement age of 70 – which is set by primary legislation rather than by rule – comes to be reviewed as it will need to be in the light of the new Government's intention to phase out default retirement ages.
23. The difficulty, however, is that dropping this element of the package would add a further 2.4% to the contribution rate. Given the acute financial pressure on the dioceses and the very substantial continuing pensions cost to them of more than £70m per year, the Council does not believe that the accrual period can be left at 40 years.
24. Nevertheless, it proposes that the increase should be to 41.5 years rather than 43 years. This goes some way towards meeting the concerns expressed in the consultation exercise while adding a more manageable 1.2% to diocesan pension costs. Annex D summarises the relevant figures.
25. The Council has also reaffirmed its intention of putting in hand work to explore in some detail how a hybrid scheme for the clergy might work. We are grateful to the Task

Group for being prepared to take this on. This further work will explore options that will be cost neutral compared with the present defined benefits scheme, as modified in the ways we have proposed.

26. The test of any new 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.
27. The Task Group has indicated that it would hope to have completed much of this further work by around Easter next year. In addition, at its September meeting this year, the Council's Deployment, Remuneration and Conditions of Service Committee proposes to consider how best to take forward work on the clergy remuneration package more generally, as requested in the Synod's Motion in February. This is clearly relevant to the consideration of future pension arrangements. The Council will report back to Synod once all this work is completed by the end of 2011.

Ill-Health Retirement

28. In the light of the consultation exercise the Council recommends that Synod endorses the ill-health retirement proposals that it accepted in principle in February. This will mean that, in future, a standard ill-health retirement pension will be based on years earned without reduction for early payment plus a graduated enhancement calculated according to potential years of service. DRACSC will also be working further with dioceses to deliver the proposed nationwide standard of occupational health support for serving clergy.
29. This change to the pension rules should reduce the contribution rate by around 1%, though the increased level of occupational health provision is likely to mean that the net effect on diocesan budgets will be broadly neutral.

Civil Partnerships

30. In their triennial valuation the Pension Board's actuaries indicated that, while the enhanced benefits for surviving civil partners will cost more in individual cases, the overall impact on the funded scheme over time will be "negligible". They have advised, therefore, that there is no impact now on the contribution rate. In the light of the decision reached by Synod in February, the Council, Pensions Board and Commissioners are content to lay the necessary rule changes before Synod for approval.

Summary

31. The Synod is invited to agree that:
 - (1) The Clergy Scheme should be contracted into the State Second Pension Scheme (S2P.) The full pension from the Clergy Scheme should in consequence be reducing from two-thirds of National Minimum Stipend (NMS) to half of NMS for future service. (As stated in GS 1758, 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 pension entitlement from all sources.)
 - (2) 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.

- (3) The pension age for future service should, from 1 January 2011, be 68 rather than 65.
- (4) The accrual period for future service from 1 January 2011 should be 41.5 rather than 40 years.
- (5) In the context of the wider ill-health proposals endorsed by Synod in February, the CEFPS rule should be amended, in particular so that, in future, standard ill-health retirement pension should be based upon years earned without reduction for early payment plus a graduated enhancement calculated according to years of service.
- (6) The necessary rule changes should be made so that pension rights in relation to Civil Partners are the same as spouses.

+Rowan Cantuar:

+Sentamu Ebor:

June 2010

Recommendations of the Clergy Pensions Task Group Report – paragraph 2 of GS1758

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.

Recommendations of the Clergy Pensions Ill Health Retirement Group Report – paragraph 1 of GS1759

1. Continued rigour in the medical assessment adopted in selection and further rigour in the interim medical assessment at the end of the penultimate year of training to ensure so far as possible that the candidate is fit for the work of ministry. (paragraph 5.9)
2. That a consistent nationwide standard of occupational health support is made available to serving clergy; and that it is also available to ill-health retirees in order to promote rehabilitation. (6.4)
3. That the initiation of the Terms of Service Capability Procedure should be a necessary prelude to an application for ill-health retirement; and that where ill-health retirement may be an outcome of a capability procedure the Pensions Board is notified at an early stage. Thereafter the scheme member, the diocese and the Pensions Board should work collaboratively to ensure that all alternatives have been fully explored. (7.5)
4. The CEFPS rules are amended so that benefits paid where an application for ill-health retirement is made within three months after the termination of pensionable service are on the same basis as for other deferred members (ie based on completed service only).(7.6)
5. In future a standard ill-health retirement pension is based upon years earned without reduction for early payment plus a graduated enhancement calculated according to years of service. (8.12)
6. Whatever ill-health benefits are agreed for the future, the advantages to the CEFPS and to members of insuring for these benefits outside the pension fund be given further detailed consideration. (9.8)
7. Early consideration be given to a funding mechanism to support delivery of the occupational health resource described in recommendation 2. (9.13)
8. The lump sum paid to any qualifying survivor on the death of a member retired on ill-health grounds should be subject, in the event of the death occurring between one and three years after retirement, to tapering in monthly rather than annual stages. (10.5)

Motions passed at the February sessions of the General Synod:

CLERGY PENSIONS: PROPOSED SCHEME CHANGES - A REPORT FROM THE ARCHBISHOPS' COUNCIL ([GS 1758](#))

'That this Synod

- (a) endorse the recommendations at paragraph 2 of GS 1758, subject to necessary statutory and other consultations that the Archbishops' Council now needs to conduct;
- (b) in the light of those consultations invite that Archbishops' Council to submit to the Synod in July final proposals, including such changes as are necessary to the funded scheme rules; and
- (c) ask the Archbishops' Council to consider the preparation of a report which describes and explores the overall clergy remuneration package.'

CLERGY PENSIONS: ILL-HEALTH RETIREMENT - A REPORT FROM THE ARCHBISHOPS' COUNCIL ([GS 1759](#))

'That this Synod

- (a) endorse the recommendations at paragraph 1 of GS 1759;
- (b) subject to consultation with scheme members, invite the Pensions Board to submit to the Synod in July such changes as are necessary to the funded scheme rules; and
- (c) ask the Archbishops' Council to report to the Synod in 2011 on progress with arrangements for implementing national occupational health standards.'

PRIVATE MEMBER'S MOTION: PARITY OF PENSION PROVISION FOR SURVIVING CIVIL PARTNERS ([GS 1770A](#) and [GS 1770B](#))

'That this Synod request the Archbishops' Council and the Church of England Pensions Board to bring forward changes to the rules governing the clergy pension scheme in order to go beyond the requirements of the Civil Partnership Act 2004 and provide for pension benefits to be paid to the surviving civil partners of deceased clergy on the same basis as they are currently paid to surviving spouses.'

Changes to the Accrual Period for Full Pension

Illustrations of Costs and Additional Benefits

Pension earned in respect of service completed from 1 January 2011

Years of service from 1 January 2011	Accrual Period		
	40 years £ pa	41½ years £pa	43 years £pa
1	253	244	235
5	1,264	1,219	1,176
10	2,529	2,437	2,352
20	5,058	4,875	4,705
30	7,586	7,312	7,057
40	10,115	9,749	9,409

Notes:

1. The figures illustrate the amount of pension that would be earned in respect of the number of years service performed from 1 January 2011. The pensions would be **in addition to** any pension earned in respect of service performed prior to 2011.
2. The pensions shown are based on the National Minimum Stipend for 2009/10 of £20,230, which is used for calculating benefits in 2010/11.

Additional cost of changing the accrual period

Additional Cost	Accrual Period		
	40 years	41½ years	43 years
As % of NMS	2.4	1.2	-
Total cost (pa)	£4,370,000	2,185,000	-

Notes:

1. The figures show the additional cost of reducing the accrual period from 43 years, which was the period recommended in GS1758.
2. The “% of NMS” row shows the increase to the contribution rate expressed as a percentage of the pensionable stipend (ie National Minimum Stipend (NMS) in the preceding year.
3. The total cost is calculated using the NMS for 2009/10 of £20,230, which is the figure used for the calculation of contributions in 2010/11. For the purposes of illustration it has been assumed that there are 9,000 active members of the scheme.