The Future of Clergy Pensions

Report from the Archbishops' Council

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Proposal

1 We propose that the Synod should, in February, have before it the opportunity to agree a motion endorsing the recommendations in this report and authorising the necessary next steps. These include the statutory notification and consultation which the Archbishops' Council will need to undertake with all members of the scheme, on behalf of all the 'responsible bodies' before the scheme rules are changed. Subject to the outcome of that process the Synod would then be invited in July to change the scheme rules in relation to the period of accrual for a full pension and the proposed LPI changes for future service.

Context

2 The past few years have witnessed radical changes in the world of occupational pensions. Outside the public sector, most organisations have concluded that the costs and open-ended commitments associated with defined benefit pension schemes are unsustainable.

In the public sector, while defined benefit pensions have, in general, survived, various reforms have been introduced to restrain escalating costs.

3 The reasons for these changes are well known. Ever increasing longevity means that retirement now lasts much longer, with pensions being paid over more years than was the case a generation ago. Investment returns have been lower since the mid-1990s: over the past few years the running ten-year average rate of real returns has been substantially lower than it was in the 1990s and it is expected to remain so for the foreseeable future. More expensive liabilities (as a result of greater longevity and falling bond yields) and less buoyant investment returns have produced large deficits in many pension funds. Accounting standards have brought pension obligations, cautiously calculated, onto company balance sheets and made management and investors more aware of them.

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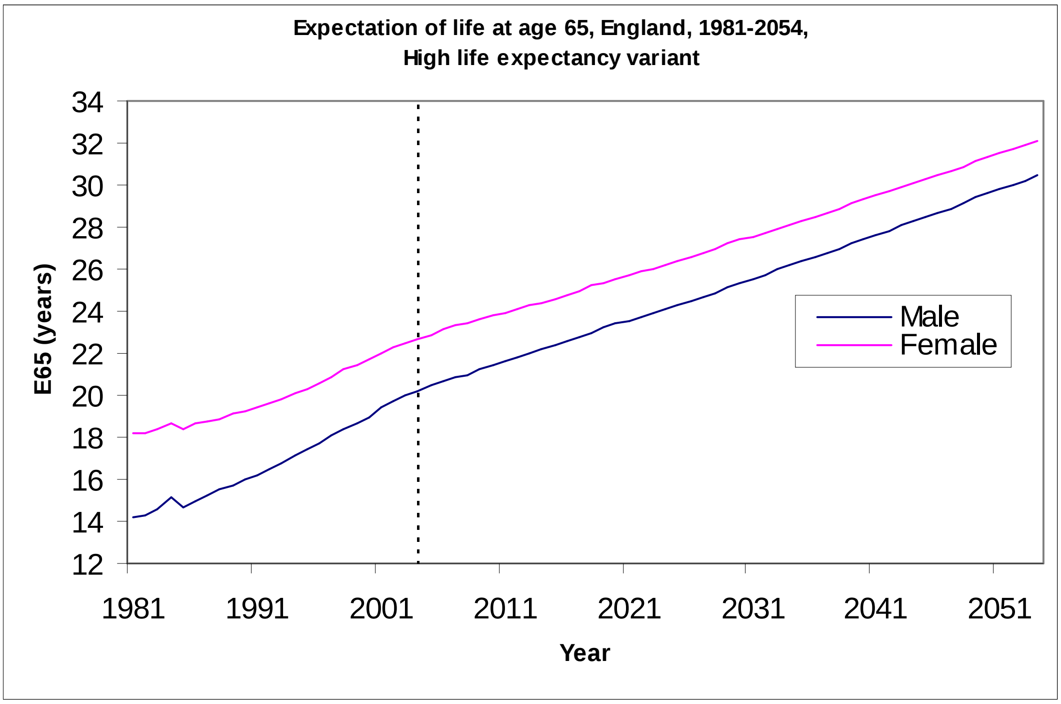

Fig 1 - Expectation of life at age 65, England

Based on actual mortality rates and projected mortality rates from the 2004-based cohort high life expectancy variant population projections[1]

5 A further factor has been the insistence of the Government and Parliament that pension fund trustees should adopt a more prudent approach to the management of their responsibilities. The greater assurance that the Pensions Act 2004 and the relevant European Directive on occupational pensions schemes are intended to provide for scheme members comes at a cost. The new Pensions Regulator has extensive powers that will enable it to intervene if it believes that trustees are being insufficiently rigorous in requiring employers to put in sufficient money to fund their pension commitments. Trustees now have to assess risks

1 Source: Government Actuaries Department
http://www.gad.gov.uk/life_tables/docs/2004/2004EngHLEe65.htm

much more carefully and, when in doubt, err on the side of caution by getting in as much money as possible up front.

6 **It is within this wider context that the Church of England now has to reach decisions about the future of its own arrangements for clergy pensions.** There is much about clergy terms and conditions of service that is unique. The adequacy of pension arrangements is, as a result, particularly important for the morale of those who serve the Church in the stipendiary ministry. There is, therefore, an understandable reluctance to make changes. Nevertheless, the Church is under the same obligations as other organisations to act responsibly and, particularly, to ensure that it does not allow a gap to open between what it promises and what it can actually afford to pay for in the long term. **We cannot will the ends without being confident that we can will the means.**

The Task Group's reports

7 It became apparent in November 2005 that the Church could be faced with exceptionally large increases in the immediate cost of maintaining the clergy pension scheme unless some action was taken. The Archbishops invited Allan Bridgewater (Chair of the Pensions Board), Michael Chamberlain (Chair of the Archbishops' Council Finance Committee) and Andreas Whittam Smith (First Church Estates Commissioner) to constitute a small Task Group which could produce an urgent assessment of the situation. The Task Group produced an initial report on 1 March 2006 and a second report on 30 June. The first mapped out the ground and identified the key questions that the Church would need to consider. The second identified a number of options and launched a consultation process, which ended on 10 November.

8 One key decision has already been taken. Normally, in common with most pension funds, the Pensions Board reviews every three years what the dioceses and other responsible funding bodies have to pay in the form of contributions to the clergy pension scheme[2] to reflect their pension commitments. But, exceptionally, on 24 April 2006 the Pensions Board decided that it could not, in the light of the information then available, responsibly leave the contribution rate unchanged until 1 April 2008 when the results of the next review (based on the figures as at 31 December 2006) would normally have come into affect.

9 Instead, the Board concluded that dioceses and other responsible bodies should, from 1 January 2007, contribute 39.8% of the national minimum stipend rather than, as previously, 33.8%. This means, that dioceses now have to contribute £7,188 for each member of the clergy rather than £6,105 per year, **a 17.8% increase in pension costs**. That means an additional £9.5m charge to annual diocesan budgets. While some dioceses are in the short run planning to draw on reserves to meet this, extra costs are bound to flow through into extra, ongoing financial demands on the parishes.

10 In their second report the Task Group reported the view of the Pensions Board's actuaries that the 2006 valuation would probably show that a further significant increase was needed from 1 April 2008 if the terms of the scheme remained unchanged. **In obtaining that valuation it will be for the trustees to reach specific judgements over their approach to prudence (in particular in relation to assumptions made about future investment returns, the strength of the financial covenant and the period allowed for clearing deficits in the fund).** They will also have to consider whether, under the new scheme regulations, it is any longer appropriate to grant discretionary pension increases, over and

2 The full title is the Church of England Funded Pensions Scheme, otherwise known as the funded scheme.

above those guaranteed by the scheme rules, at a time when the fund is carrying a significant past service deficit.

11 All figures are necessarily provisional pending the formal valuation of the scheme. But the second Task Group report noted the actuaries' preliminary advice that a contribution of around 43.5% (that is £7,856 per scheme member per year at 2006/2007 levels) would be a mid range assumption of what might be needed from April 2008 if benefits remain unchanged. The final figure will be determined by the Pensions Board following their actuary's formal triennial valuation of the fund as at 31 December 2006 which will be carried out in the first half of 2007.

12 A figure of 43.5% would be somewhat lower than earlier figures that had been estimated before the Pensions Regulator had developed and clarified its own approach to the implementation of the new scheme funding regulations. Nevertheless, as the Task Group noted, this would still represent a potential step change in the ongoing pension commitments for dioceses and other responsible bodies. **Many dioceses had already indicated that contribution rates above 40% would be simply unaffordable** .

13 As a result, the Task Group explored possible ways of containing costs. It identified three possible approaches:

> **Option A**: This would retain the present defined benefit scheme and funding arrangements but with some limited reductions in benefits - namely:
>
> increasing the accrual period for full pension from 37 to 40 years for all future service;
>
> establishing a new policy that all future pension increases should reflect what is guaranteed by the scheme rather than the present discretionary link between pension increases and stipend increases; and
>
> changing the rules of the scheme so that it guarantees post- retirement increases of RPI, subject to a maximum of 2.5% pa;
>
> to keep the cost increases within the limits of affordability this option was the one recommended by the Task Group.
>
> **Option B:** This would involve a decision by the Church to move from a defined benefit to a defined contribution scheme for future clergy pensions. The Task Group had reservations about the inevitable transfer of risk involved from funder to beneficiary.
>
> **Option C:** This would be a radical approach of a rather different kind. It would retain the defined benefit scheme but involve legislation to enable the Church Commissioners to resume full responsibility for clergy pensions taking over the assets and liabilities of the funded pension scheme from the Pensions Board and, in future, collect pension contributions directly from the dioceses and other responsible bodies. Since the potential attractiveness of this option turns crucially on potentially regulatory issues, the Task Group agreed to explore these further. But it noted that it was an option that, in any event, raised major questions about what the Church's funds managed by the Church

Commissioners were for. The Task Group also signalled caution over what would constitute a reversal of the decision reached in the 1990s to phase out the Commissioners' pension liabilities over the coming decades in order to reduce the risks to the balance of their fund and its capacity to offer non-pensions support.

14 The Task Group concluded by asking 4 questions:

(1) **Do you agree that the policy of simply relying on the dioceses and other funding bodies to meet whatever increase in the contribution rate is required to sustain present arrangements unchanged, will not be sustainable from 2008?**

(2) **If you answered yes to (1), do you agree that Option A should be pursued?**

(3) **If you answered yes to (2), are there any particular points you want to register in relation to the individual elements of Option A?**

(4) **If you answered yes to (1) but do not favour Option A, or if the wider Church was to reject Option A, what views do you want to register at this stage on Options B and C?**

Results of the consultation with responsible bodies

15 Views on the Task Group's recommendations were sought from around the Church. Dioceses were invited to consult widely before submitting a single view through their Bishop's Councils. In addition, responses were encouraged direct from individuals and other bodies.

16 Every diocese (other than the Diocese in Europe) has responded. Four of the smaller responsible bodies have submitted responses, St Paul's Cathedral, Westminster Abbey, The Church Army and Bishop Grosseteste College as have the Church Commissioners and the Retired Clergy Association. In addition 53 responses were received from individuals. Most of the latter raised specific points rather than directly addressing the questions in the report. Of the four smaller responsible bodies that responded, three accepted Option A and one favoured Option B. The Retired Clergy Association also accepted Option A, including breaking the link with stipends, though it opposed capping post-retirement pension increases at 2.5% pa.

17 The Deployment Remuneration and Conditions of Service Committee (DRACSC) took account of the full range of views in making its own recommendations to the Archbishops' Council in the light of the consultation exercise. Inevitably it gave particular weight to the views reached by each of the Bishop's Councils in the light of soundings taken of clergy and laity in the dioceses. Although the 44 dioceses constitute only 22% of the 203 bodies that participate in the clergy pension scheme they account for 12,880, or 93%, of the clergy pensions scheme's total membership of 13,908 .

18 In response to Question 1, **40 dioceses agreed and only 3 disagreed with the statement that simply relying on the funding bodies to meet whatever increase in the contribution rate was required after 2008 would not be sustainable.** Of these 40, 7 dioceses expressed a strong view that 40% was the absolute maximum contribution that they could afford.

19 In response to Question 2, **40 dioceses also endorsed the Task Group's view that Option A should be pursued.** There is, therefore, a very strong wish to preserve the main features of the present defined benefits scheme insofar as it is possible. Of the 40 dioceses there were, nevertheless, 13 that thought that a review of the complete "remuneration package" was needed and that this might lead to wider pension changes in due course.

20 Question 3 invited those who had said "Yes" to Option A to comment on any individual elements of it. **All 40 dioceses that were in favour of Option A agreed with the first proposal, namely to increase the accrual period for full pensions from 37 to 40 years for future service.** On the second proposal, **33 dioceses agreed that the discretionary link between pension and stipend increases should be broken and a further 2 dioceses, while not specifically giving a view on the merits of breaking the link, focused on the rate at which limited price indexation should be set.** This left 5 of the 40 dioceses who both chose Option A and clearly stated their desire to maintain the stipend link for post- retirement increases.

21 It was the third recommendation that prompted the greatest variation of views. **Among the 35 dioceses that supported breaking the discretionary link with stipend increases, 15 said that the Task Group's recommendation of LPI (that is, limited price indexation) of RPI up to 2.5% pa was too low. Of the 20 who were prepared to support it, 13 did so with varying degrees of reservation. Of the 15 who specifically argued for going higher than 2.5%, 3 suggested leaving the guarantee at 5% and the rest either simply said that 2.5% was too low or suggested a figure somewhere between 2.5% and 5%.**

22 In its second report, the Task Group had also discussed the possibility that, if option A were adopted, the pension age for future service might **at some point** be increased beyond 65. It noted that "it may well be sensible to increase the pension age from 65 as the state retirement age increases progressively from 2024 but it seems to us that it is a change that it might be prudent to keep in reserve until then to deal with that gradual increase in costs that will come through over time if longevity continues gradually to improve." Of the 43 dioceses, 33 offered no comment on this assessment. Of the other 10, 9 expressed some support for increasing the pension age while one was firmly against.

23 Question 4 had asked dioceses to offer comments specifically on Options B and C. **Of the 3 dioceses who opposed Option A, 1 chose Option B, i.e. a switch to defined contributions.** 6 other dioceses did however suggest that Option B might need to be looked at again in the longer term. Option C, that is folding the Pension Board scheme into the Church Commissioners' fund, attracted rather more comment. 4 dioceses expressed some support for the option, 11 favoured some further exploration but 15 came out clearly against it. A number of those opposed were, however, very happy for further exploration of ways in which help from the Commissioners might serve to underpin Option A.

24 A number of other comments were made in the responses. Two were particularly prominent. One was the crucial need to take a fresh look at ways of helping clergy to prepare for meeting their housing needs in retirement. The other was the call for more joined up thinking in relation to the Church's future needs in relation to the numbers and deployment of its stipendiary ministers.

25 Questions were also raised about removing differentials. However under current legislation, if institutions are to be allowed to opt out of the State Second Pension, pensions must be related in some way to earnings. The current level of pensions differentials allows such opting out. Removing differentials would reduce the contribution rate by around 0.2% but require us to radically restructure the benefits of the scheme in order to opt back into the State Second Pension, which on balance is not considered desirable at present.

Consultation with scheme members

26 There is a statutory requirement to consult with members of the scheme notifying them of the proposal to make changes to the scheme, describing the proposed changes and stating what effect they will have or will be likely to have on the pension fund and its members.

27 The consultation paper will be sent out by the Archbishops' Council in writing to all members as soon as possible after the February group of sessions and members will have 60 days in which to respond. Responses will be reported to Council's DRACS Committee who will decide in the light of these whether to recommend to the Archbishop's Council that the proposed changes be presented to the Synod in July for final approval.

Other recent developments

28 There are three other developments that the Council has had to take into account in deciding what to recommend to the General Synod.

29 **First, the Government has now introduced into Parliament legislation that will, among other things, restore the link between earnings and the state pension.** It is expected that this change will come into effect in around 2012.

30 As the second Task Group report acknowledged, there may be those who think it odd for the Church to be considering breaking the stipends link for clergy pension increases just when the indexation factor for state pension increases is to be changed from prices to earnings. The two sorts of pension are, however, very different both conceptually and in relation to government policy. It should also be noted that the change above is also linked to moving the state retirement age from 65 to 68 between 2024 and 2045.

31 The state pension is designed to provide a basic level of income for all those who have made sufficient national insurance contributions to qualify. All recipients of the state pension, including the clergy, will stand to benefit from the new, more generous indexation provisions that are proposed. **Occupational schemes are designed to provide a standard of living over and above the basic level. The norm is for annual increases after retirement to rise in line with prices rather than earnings. So, there is no inconsistency between having an earnings link for the state pension and a prices link for occupational schemes.**

32 **The second development is the conclusion which the Board of Governors of the Church Commissioners reached on 16 November 2006 in relation to Option C.** In the light of information from the Pensions Regulator, the Board of Governors noted that the Church would need to secure the approval of the Government, Parliament and the Synod for the Commissioners to be allowed to manage a single, un-segregated fund for both future service pensions and non-pension purposes. Even if this could be secured – and there were no obvious precedents – there would be significant regulatory risks which were at present unknown and which might negate the apparent attractions to the Church of combining the existing clergy pensions scheme and the Commissioners' fund.

33 The Commissioners also noted that there would probably need to be constitutional changes to the structure and workings of the Board of Governors to meet the representation requirements on all pension trustee bodies. More significantly, taking on pension commitments in perpetuity would place at greater risk the amount of the Commissioners' distributions and hence their ability to target their non-pensions distributions to the most needy. They would necessarily have to balance a wider range of potentially conflicting pressures. There was also a risk of losing some of the clarity that had been secured since 1998 in the true cost of clergy pensions.

34 **In the light of all these considerations, the Board of Governors was unanimously of the same view as those dioceses that had responded to the consultation exercise by firmly rejecting Option C.**

35 In these circumstances, the Archbishops' Council endorses the view of the Task Group that Option C should not be pursued further.

36 The Commissioners have however confirmed their willingness to explore further whether they should seek additional statutory powers which would enable them to provide some additional help to the clergy pension scheme should that become necessary. There are a number of options which have been raised, including providing a contingent guarantee or contributing in some way towards reducing or eliminating the current pensions deficit, and these will now be considered.

37 Fresh legislation is, in fact, already needed to enable the Commissioners to continue to spend capital on their existing pension commitments beyond 2011. A measure to achieve that is likely to be introduced to Synod for first consideration in February 2008. Over the coming months the Council will be discussing further with the Church Commissioners and the Pensions Board whether some additional powers should be included in that measure to facilitate the options mentioned above if they are subsequently requested. It is important to recognise however that this possibility cannot be taken into account by the Pensions Board when they are setting the new contribution rate following the triennial review this spring.

38 But this does not mean that the Church Commissioners cannot be part of the solution right now. The Commissioners have confirmed that if their own pensions commitments are reduced through breaking the discretionary link with stipends they will have more money to make available to the Council for distribution to dioceses. This extra money will provide essential help to make the proposals in this report affordable.

39 **Thirdly, the Council has been keen not to take any decision without first checking that there has been no significant change in advice from the Pensions Board's actuaries**. The results of their formal triennial valuation will not be available until the second quarter of 2007, and even then the Pensions Board will have a number of judgements to reach before it can decide what would constitute an acceptable contribution rate. **Nevertheless, the actuaries have confirmed that the figures in the second Task Group report continue to provide a reliable basis on which to proceed.** Their advice means that it would be unwise to count on the final results turning out better, indeed there is some possibility that revised mortality assumptions could put further upward pressure on the contribution rate.

The Council's recommendations

40 It is never easy for the Church of England to come to a common mind on an issue that is complex and contentious. It is, therefore, encouraging that the set of proposals which the Task Group produced in its second report has commanded such a wide measure of acceptance from around the Church. This has been a good example of how the three main national Church institutions, working together at both member and staff level, can come up with practical solutions to a very difficult set of problems. The consultation exercise has been open and well resourced. Particular thanks are due to the Chief Executive of the Pensions Board, Shaun Farrell, for his extensive programme of visits to dioceses and synods.

41 We are under no illusion about the reluctance with which many in the Church, and clergy in particular, contemplate any change in existing benefits. We share that reluctance. But it is not ultimately in anyone's interest to try to maintain arrangements which are beyond the ability of dioceses and parishes to fund. The consultation exercise reveals that there is a

continuing, widespread commitment to maintain the defined benefits pension scheme for the clergy and a willingness to find some additional money to do so. Since 1 January the dioceses have already been paying substantially more than they were last year. But there is a limit to the increases that can be sustained.

42 We, therefore, endorse the view of the Task Group, DRACSC and 40 dioceses who indicated their support for Option A. **Specifically, we recommend that the rules of the funded scheme should be changed so that the service required from 1 January 2008 for a full pension is extended from 37 to 40 years.** All service up to that point will, of course, continue to count towards a pension based on a 37 year accrual period**.**

43 **In addition, and with inevitable regret, we recommend that the policy of linking post retirement pension increases to increases in the national minimum stipend should be discontinued. Given the very high cost of sustaining a defined benefits scheme we do not believe that this discretionary arrangement is sustainable. As indicated above, the Pensions Board has already questioned whether it would be acting responsibly to grant discretionary increases, over and above that guaranteed by the scheme rules, at a time when the scheme is carrying a substantial deficit.** As a result, all future pension increases from 1 April 2008 would be in line with what is guaranteed under the scheme.

44 That leaves what seems to us to be the most difficult issue, namely whether the present **guaranteed** level of increases, that is RPI up to a maximum of 5%, should be reduced and if so by how much. The Task Group offered persuasive reasons why the Church should take advantage of the flexibility provided by the government to reduce the guarantee to 2.5%. Without this change, the Task Group doubted whether the contribution rate could be contained at around 40%.

45 In the light of the reservations of many dioceses, however, DRACSC has recommended a somewhat higher figure. It is relevant that in their own calculations of future liabilities the Pensions Board's actuaries assume that RPI increases average out at 2.9% pa over the long term. Moreover, while price inflation has been at historically low levels for the past 15 years, there have been a number of occasions when it has exceeded 2.5%.

46 **DRACSC has accordingly recommended- and we agree- that the rules of the funded scheme should be changed so that the guarantee is reduced to RPI up to a maximum of 3.5% pa** (rather than 2.5% as originally proposed). There have over the past 10 years been only two occasions when the 12 months RPI increase (in the year to the preceding September) has exceeded 3.5% and on both occasions by only 0.1%. As a result of an increase in inflation in the final months of 2006, which has, unusually, taken RPI above 3.5% and CPI above its target level of 2%, the Bank of England has increased interest rates twice in order to reduce inflationary pressures. In the light of the experience of the past decade there is a reasonable prospect, therefore, that linking pension increases to a maximum of 3.5% would preserve the purchasing power of pensioners over the long term in relation to actual price rises.

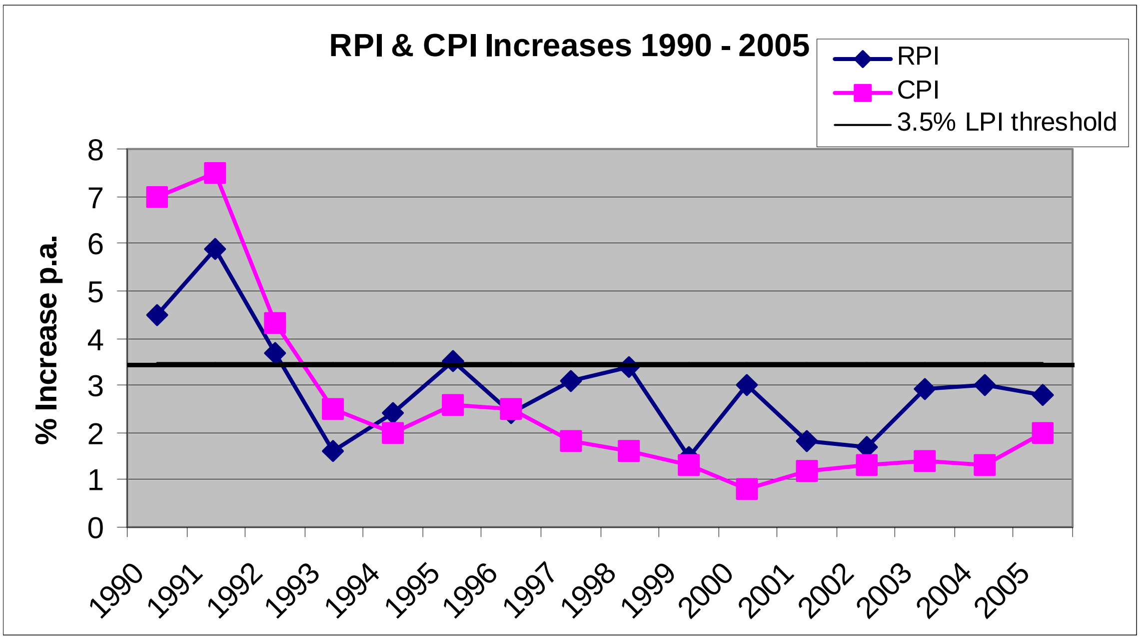

Fig 2 – Increases in the Retail Price Index and the Consumer Price Index 1990 - 2005[3]

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48 There is evidence that pensioners are affected by higher rates of consumer price inflation than the general population because a higher proportion of pensioners' expenditure is on energy bills and food. However, recent media reports may have exaggerated the position as these were based on hypothetical cases used in order to make the (valid) point that consumer price inflation experienced by individuals can differ widely from the Government's favoured inflation measure, the CPI (Consumer Price Index). It seems likely that this variation in inflation rates will narrow over the coming months as energy price inflation falls back. It is also worth noting that most pension schemes, including the clergy schemes, are indexed to RPI (Retail Price Index) which is consistently higher than CPI.

49 Figures from the Office for National Statistics show that older people spend a smaller proportion of their gross income than younger households. Categories where the proportion – though not necessarily the amount- of expenditure rises with age include, food, fuel, power, water and health. Nevertheless analysis suggests that the group aged over 70 spend 76 per cent of their overall gross income, compared with 92 percent where the reference person was aged 50 to 64 and 90 percent where the reference person was aged 60 to 69.[4]

50 There is a further consideration. There are some grounds for believing that the increased pension costs that flow from increases in stipends have in recent years acted as something of a brake on increases in the national minimum stipend. Breaking the link will remove part of this disincentive. As stipends increase over the coming years the starting level of pension at the point of retirement will benefit from these changes even though, after retirement, annual increases will be in line with prices subject to the cap mentioned above

51 We recognise that none of these arguments will be persuasive for those who regard any diminution of the present pension benefits as unacceptable. But we believe, that, in a very difficult situation, these changes - in parallel with the substantial additional funding that parishes and dioceses will still have to provide - do offer a way in which everyone can play their part in achieving a solution.

52 We have considered carefully whether, rather than making some of these changes, it might be better to increase the pension age above 65 in relation to future service. However we agree with the Task Group and with DRACSC that this is not an option to be pursued lightly.

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3 Source DTI

4 Source: Pension Trends 2005 Edition - NSO - http://www.statistics.gov.uk/pensiontrends/

53 It is important to remember that, by maintaining a defined benefits scheme, the Church is continuing to support what is in effect an open-ended commitment. As longevity continues to improve it would be prudent to have some options in reserve for the years ahead to meet possible further increased costs.

54 We also think that many clergy would be reluctant to see their own pension age increased now, significantly ahead of the increases in the state retirement age which are not due to begin until 2024 and would not reach 68 until 2044. As the table below shows, the majority of clergy choose not to work beyond the current normal pension age of 65 although under the Ecclesiastical Offices (Age Limit) Measure 1975 they may continue working, earning a full stipend, and accruing pension[5] until the age of 70. At present only 252 clergy over the age of 65 have chosen not to retire (of whom 33 are over the age of 70 and may continue to work if they chose to as they were in office at the time the Age Limit Measure was passed).

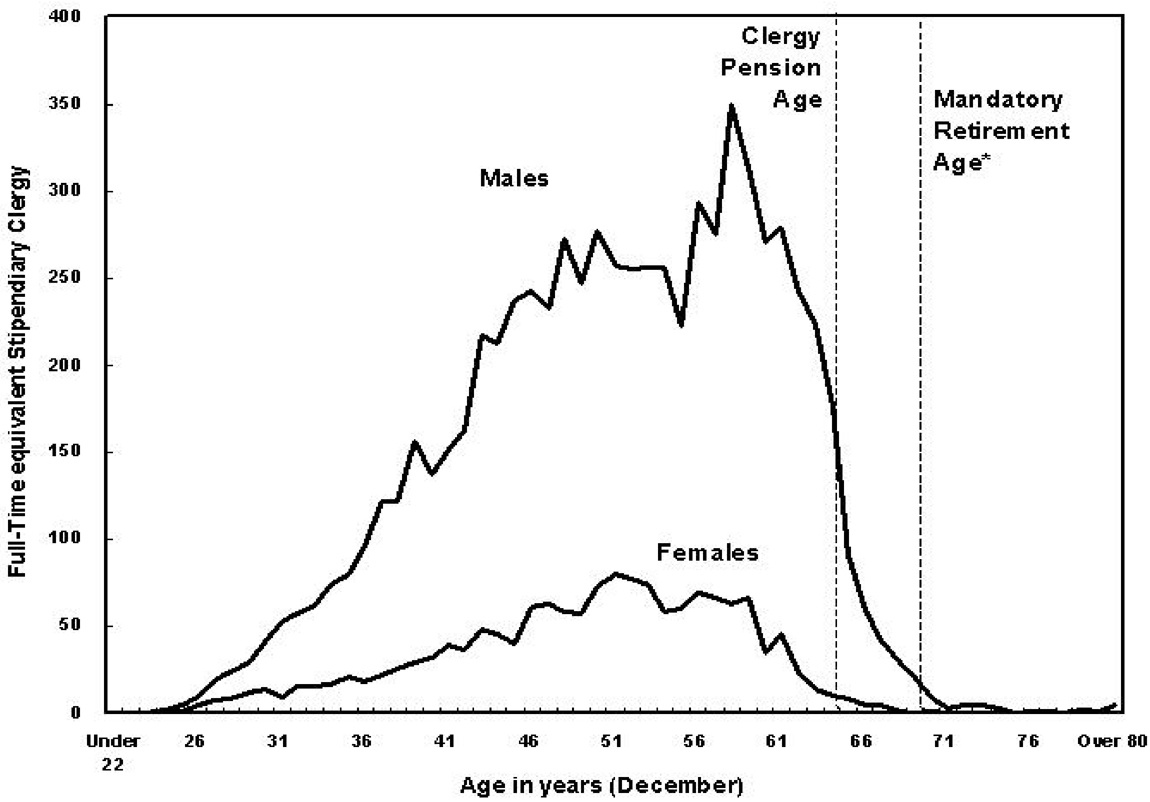

Fig 3 - Age profiles of stipendiary clergy 2005 actual[6]

55 It would, in fact, require an immediate increase to around 68.5 years to save the same amount (for both the funded scheme and the Church Commissioners' liabilities) as will be achieved from breaking the stipends link and moving to LPI of RPI up to 3.5% pa. for future service. **We cannot recommend such an approach.**

56 Another possibility mentioned by the Task Group was the introduction of mandatory additional clergy contributions. If this were to be coupled with a compensatory rise in stipends

5 Up to the maximum pensionable service permitted.

6 Source: The Archbishops' Council Research and Statistics Department http://www.cofe.anglican.org/info/statistics/churchstats2004/statisticspg33.htm

it would increase overall costs and would involve an unwelcome measure of compulsion without achieving any overall saving. We have therefore, like the Task Group, rejected the idea.

57 What then, will be the likely contribution rate from the changes that we recommend? We shall not know the final figures until the formal triennial actuarial valuation has been completed. Our current expectation is that it will still be slightly more than the 39.8% that has applied since 1 January 2007, probably somewhere between 40% and 41%.

58 This is, however, not the whole story. By breaking the discretionary stipends link the Church will relieve the Church Commissioners of pension liabilities equivalent to a capital sum of around £180m. That potentially enables the Commissioners to make, in perpetuity, additional money available (currently estimated at £4.4m pa) for distribution without compromising their responsibility to support the Church's mission in future generations.

59 DRACSC has recommended that this money should be allocated to dioceses in proportion to their stipendiary clergy numbers, for a limited period, rather than on a more selective basis. **That would be the equivalent of saving every diocese around 2.4% in the contribution rate**.

60 Since the very high recent increases in the contribution rate affect all dioceses, the Council is attracted to the idea of a per capita allocation on a transitional basis. But before reaching a final decision it will want to consult the dioceses through the Inter-Diocesan Finance Forum. Our preliminary view is that such an arrangement should last for an initial period of 3 years and be reviewed following the next triennial valuation. It will also need to consult the Church Commissioners, given their statutory responsibility to focus on need and opportunity.

Housing, deployment and other issues

61 The Council endorses the view of DRACSC that a positive response is needed to the widespread call from the dioceses for further work in relation to clergy housing and to deployment issues. Viewed in isolation, clergy pension arrangements, even after the changes proposed, compare favourably with those available for most people in the working population. The present clergy pension of £12,040 together with the state pension £4,381 pa for a single person is in the top 20% of annual income for UK pensioners[7]. But pensions cannot be viewed in isolation. For those who have spent their working lives in tied housing the big question is how they are going to house themselves in retirement.

62 The Church does, of course, continue to provide the CHARM scheme – with both shared ownership and rental options – for those who would otherwise face difficulties. Currently around one third of all retired clergy live in a home which is provided by the CHARM scheme. An increasing number of those who retire manage to provide for their own housing but many cannot.

63 The big increases in property prices over recent years, coupled with limits (to control the proportion of the Commissioners' capital invested in the scheme and to keep the scheme subsidy at a level affordable by dioceses) on the finance available from CHARM of £125,000 per property (£150,000 in exceptional cases on the rental scheme*)* has inevitably raised questions about the adequacy of present arrangements. Moreover, there is, in the minds of some, a question whether the CHARM scheme, which by virtue of being needs based is necessarily discriminatory, is the right long term solution.

7 Source: DWP Pensioner's Income Series 2004/5

64 The Council has therefore accepted a recommendation from DRACSC that there should be a review of the level and nature of assistance needed by clergy to provide for their housing in retirement. The review will look at the likely cost of this over the coming 10 years and beyond and advise how available resources can be applied most effectively. The review will explore what changes and arrangements might be possible to improve the future position of clergy in respect of housing at retirement.

65 DRACSC has been asked to move this work forward speedily. The current aim is that a progress report will be presented to the IDFF in May and a full report to the Archbishops Council by November 2007. In view of this urgency the review will be staff led, chaired by The Ven Christopher Lowson, Director of the Ministry Division, drawing in expert professional advice from outside along with input from the wider church. There will be wide consultation.

66 In relation to deployment issues, it is a cause for rejoicing that the number of ordinations to the stipendiary ministry has been buoyant over the past couple of years. There is an imperative need to attract more, younger people into the ordained ministry. Nevertheless, there are aspects of the present system which merit further scrutiny.

67 The “Sheffield” formula was devised more than 30 years ago when the lion’s share of ministry costs was met out of national funds. Now the financial responsibility rests primarily with the dioceses and the parishes themselves.

68 While there is still value in having a national formula that guarantees to all dioceses a fair share of the national supply of stipendiary deacons there is a question mark over whether diocesan and national approaches to the Church’s future needs for stipendiary ministry, and what these imply for selection and deployment, are sufficiently thought through and coordinated.

69 DRACSC has signalled that it wishes to discuss this further at its meeting in March and consider what further work, in consultation with the House of Bishops and this Council, might be needed. A small group of members and staff has begun work on this and a report will go to the Archbishops’ Council in the summer.

70 An ancillary point raised during the consultation process relates to the Pensions Board’s current policy that the combination of the clergy pension and remuneration from ecclesiastical work in retirement must not exceed the National Minimum Stipend. Recognising the vital role which retired clergy continue to play in the mission and ministry of the Church, the Council has agreed with the Board’s view that this policy should be reviewed.

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Summary

72 **We invite the General Synod to endorse the following recommendations:**

1) **the Church of England should maintain a defined benefits scheme for the clergy and take the necessary steps to make it affordable;**

2) **the current level of full service pension to which a member of the clergy is entitled on the day of retirement should remain unchanged;**

3) **the period required for a full pension should, in respect of pensions earned in service from 1 January 2008, be extended from 37 to 40 years;**

4) **the policy for all future post-retirement pension increases from 1 April 2008 should be to pay what is guaranteed by the scheme in relation to price inflation rather than matching increases in the national minimum stipend;**

5) **the limit on price indexation in the funded scheme should be reduced from 5% p.a. to 3.5% p.a. in relation to future service (increases in relation to service up to the date of the change will, whether funded by the Church Commissioners or from the funded scheme, continue to be at RPI up to a limit of 5%);**

6) **there should at this stage be no increase in the pension age of 65 (and clergy will continue to have the discretion to work up until 70 if they so choose);**

7) **compulsory pension contributions from scheme members should not be introduced;**

8) **subject to further consultation with the dioceses and the Church Commissioners, the additional distributions from the Church Commissioners' fund made possible by breaking the link between stipends and post-retirement pension increases should, be distributed by the Archbishops' Council to all dioceses on a per capita basis rather than selectively, until the 2009 actuarial valuation has been carried out at which point this method of distribution will be reviewed; and**

9) **further work should continue, as proposed by DRACSC, in relation to clergy retirement housing, deployment issues, and to review the policy in relation to ecclesiastical earnings in retirement.**

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Glossary

Actuaries

In general, an actuary (or scheme actuary) is the person appointed by the trustees of a pension scheme to carry out an examination of the funding of the scheme (usually at least every three years).

Cohort Effect

The cohort effect in terms of mortality assumptions, is the effect on the results for the whole, of groups of people of a certain age who show a sharp fall in mortality rates that exceed their predecessors and their successors.

Contingent Guarantee

Contingent assets are assets on which a claim by the pension scheme would exist on the occasion of one or more specified future events. In other circumstances they are not available to the fund to meet members' benefit payments. In particular, until the contingent event occurs, they cannot be included for the purpose of assessing whether the assets of a scheme are sufficient to cover technical provisions. A contingent asset can take the form of a group company guarantee, but in this case the trustees should take advice on the relative strengths of the covenant of the employer and the guarantor.

Contribution rate

The amount each responsible body participating in the scheme must contribute to the scheme under the trust deed.

Deficit

A pension scheme is said to be in deficit if after a regular actuarial valuation, (which places a value on the scheme's liabilities which can then be compared to the value of the assets,) the assets of a pension scheme are less than the liabilities.

Defined benefit scheme

A scheme where members' benefits are determined by a formula, usually involving pay and/or service with the employer. These schemes are often called final salary or salary-related schemes.

Defined contribution scheme

A scheme where the benefits are calculated by reference only to the amounts paid into the scheme, the investment return, and how much pension this would buy at retirement. These schemes are often called money purchase schemes.

Discretionary link with stipends

It has been the policy of the Pensions Board for many years to increase pensions in line with the increase in the National Minimum Stipend.

LPI (Limited Price Indexation)

A modified use of the Retail Price Index for increases in pension after retirement, limited at a certain level, so that if the RPI increase by more than that level, the increase in pension is restricted to that level.

Mortality assumptions

The effects of changing life expectancy impact on the liabilities of a pension scheme, when it is revalued. Accordingly, scheme trustees and their advisers need to make appropriate and prudent assumptions about how long pensioners will be receiving pension in retirement.

National Minimum Stipend

An amount determined each year by the Central Stipends Authority

Pension Age

The earliest age at which the pension becomes payable. In the Clergy Pensions Scheme, a member's 65th birthday.

Pensions Regulator

The Pensions Regulator replaced the Occupational Pensions Regulatory Authority as the regulator of work-based pensions in the UK. It was established under the Pensions Act 2004 and came into force on 6 April 2005.

Prudence

Trustees should choose individual assumptions with a level of prudence consistent with the overall confidence they want, that the resulting technical provisions will prove adequate to pay benefits as they fall due.

Responsible body

The body which has a duty to make contributions for the purposes of the Funded Pensions Scheme to the Church of England Pensions Board in respect of each scheme member for whom the body is responsible.

RPI (Retail Price Index)

The Retail Price Index is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the UK. It is compiled and published monthly by the Office of National Statistics.

State retirement age

The age at which the state pension becomes payable, currently 65.

Valuation

A comparison by the actuary of the value placed on the scheme assets with the liabilities using the method and assumptions used in the pensions legislation and actuarial guidance.