

GENERAL SYNOD

**THE CHURCH OF ENGLAND FUNDED PENSIONS SCHEME
(ADDITIONAL LUMP SUM) (AMENDMENT) RULES 2009**

**THE CHURCH OF ENGLAND PENSIONS (LUMP SUM PAYMENTS)
(AMENDMENT) RULES 2009**

**THE CHURCH OF ENGLAND PENSIONS (AMENDMENT) REGULATIONS
2009**

EXPLANATORY MEMORANDUM

Background

The second report of the Retirement Housing Review Group (GS Misc 919), commissioned by the Archbishops' Council, contained a recommendation that the Pensions Board should promote changes to the rules of the pension scheme to allow members greater flexibility at the point of retirement by allowing them to exchange part of their pension for an additional tax-free lump sum. The purpose of this would be to allow those retiring to have access to additional capital in recognition of the fact that people's circumstances are very different.

The Pensions Board recognises that this flexibility will be welcomed by many scheme members and was pleased to accept such a recommendation. These amendment rules have been developed to make the facility available.

Amendments are required both to the Church of England Funded Pensions Scheme (in respect of the scheme which provides benefits in respect of service from January 1998) and to the provisions which govern benefits in respect of service prior to January 1998 funded by the Church Commissioners – the Church of England Pensions Regulations 1988 and the Church of England (Lump Sum Payments) Rules 1988.

The Amendments

*The Church of England Funded Pensions Scheme (Additional Lump Sum)
(Amendment) Rules 2009 (GS 1749)*

New Rule 5A, inserted by the Amendment Rules in GS 1749, introduces the facility for pension to be exchanged for additional lump sum. The rule will permit this to be done up to the limits allowed by HM Revenue and Customs. The basis on which the conversion is to be done is to be decided by the Pensions Board (see below).

The Board's intention is that only the member's own pension should be available for conversion and that any pension payable to a beneficiary should be unaffected. In

other words, any beneficiary's pension will be based on the pension the member would have been receiving at the date of death if no pension had been exchanged for a lump sum. Thus widows and other beneficiaries will be protected from any consequential reduction in their pension that would otherwise have taken place. This is achieved by the amendment to Rule 7.3.

The Church of England (Lump Sum Payments) (Amendment) Rules 2009 (GS 1750)

New Rule 9A, which is inserted by the Amendment Rules in GS 1750, makes corresponding provision to Rule 5A of the Funded Pensions Scheme in the Lump Sum Payments Rules governing the pre-1998 scheme by providing a facility for pension to be exchanged for a lump sum.

Amendments to the Lump Sum Payments Rules require the agreement of the Church Commissioners. This has been obtained.

The Church of England Pensions (Amendment) Regulations 2009

The amendment to Regulation 17 of the Church of England Pensions Regulations 1998 makes corresponding provision to the new Rule 7.3 of the Funded Pensions Scheme Rules in the 1988 Regulations preserving the position of widows and other beneficiaries.

Operation of the Rules

As indicated above, the rule changes provide for the Pensions Board to decide the terms on which pension is converted to lump sum. The Board will keep these terms under review. Initially, it has decided that the terms will be as follows:

(a) Basis for conversion

The factors to be used for the conversion will be on a basis which is intended to reflect a "best estimate" of future experience. Thus the amount of lump sum received in exchange for a given amount of pension will be broadly "actuarially neutral" as far as the scheme is concerned. There will therefore be no actuarial strain on the scheme as a result of introducing this option.

(b) Frequency of review

Factors will be subject to a formal review following each triennial valuation of the scheme. However, there will be an informal review each year, or more often if financial circumstances are such that a more frequent review appears necessary. It is recognised that there will be fluctuations in markets between formal reviews. However, it would not be practical to have factors that are directly market-linked as that would make it very difficult for those coming up to retirement to plan effectively, and could create perceived unfairness as members would receive different benefits depending on their actual date of retirement.

(c) Using different factors for benefits from different periods of service

Different factors will be used for converting pension in respect of service prior to January 2008 and pension in respect of service from that date onwards. This is because of the different underlying guarantees as to pension increases (which is the increase in the Retail Prices Index (RPI) to a maximum of 5% pa in respect of pre-2008 benefits and RPI to a maximum of 3.5% pa in respect of benefits from 2008). The same factors will be used in respect of both pre-2008 benefits from the Funded Pensions Scheme and for the pre-1998 scheme: the actuaries to the Church Commissioners have confirmed that use of the same basis is acceptable. The amount of pension given up in exchange for a lump sum would be proportionate for each period of service within the scheme.

(d) Voluntary Contributions

One of the changes made by the Government in the Finance Act 2004 allows members who have paid voluntary contributions to take the proceeds as a tax-free lump sum, within limits set by HM Revenue and Customs. In many cases, scheme members will be able to take the whole of their voluntary contributions fund in the form of cash. Where members wish to take advantage of the availability of additional tax-free cash, the Board will require them to utilise their voluntary contributions fund first before giving up any of their scheme pension.

Church House, Westminster

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