Research Note: Clergy pensions over time

October 2023

This research note was prepared by the Church of England Pensions Board to seek to explore the impact of changes to the clergy pension schemes over time, particularly the 2010/11 changes and the interaction with the state pension. Please note that, as set out below, there are limitations in the methodology of this analysis.

The Clergy Pension Scheme

The form and benefit structure for clergy pensions has changed over time. Benefits earned before 1997 remain the responsibility of the Church Commissioners. The Church of England Funded Pensions Scheme (CEFPS) covers pensionable service from 1 January 1998. The CEFPS is funded by dioceses and other 'responsible bodies'.

The Church of England Pensions Board is the Trustee and Administrator of the CEFPS. The Rules of the scheme and the benefit structure are determined by the General Synod of the Church of England.

Background to the 2011 changes

The most significant change in recent times took place in 2011 in the aftermath of the Global Financial Crisis in 2008. Immediately following the crisis, the Scheme was estimated to have a funding deficit of £352m (i.e. a funding level c50-60%). The resulting deficit recovery plan included a contribution rate covering future service and deficit recovery of 45% of pensionable stipends from 1 January 2010.

This was not considered financially sustainable for the Church, so in parallel, the Archbishops commissioned a Pensions Task Group to make recommendations to Synod on changes to make the scheme affordable again. The Task Group launched a consultation with Responsible Bodies in June 2009 which considered options including changes to the benefit structure, or replacement with either a defined contribution scheme or a hybrid scheme.

The results of the consultation were reported at the February 2010 Synod which agreed a proposal for a modified Defined Benefit scheme, and the July Synod that year agreed the details. Most notable among the changes were:

- An increase in the number of qualifying years that the accrual formula targets to 41.5 from 40 (which itself was an increase in 2008 from 37).
- An increase in the Normal Pension Age from 65 to 68.
- A reduction in the starting pension from targeting 2/3 of the National Minimum Stipend to 1/2. (The level of 2/3 had been in place since the mid-1980s.)
- Contracting back into the State Second Pension (S2P – later the 'Additional State Pension') so that members could accrue a higher state pension

entitlement, intended to offset the reductions in the generosity of the CEFPS to an extent.

The new benefit structure came into effect from 1 January 2011. It is important to note that the changes affected future service only and had no retrospective effect. Pensions are calculated taking the relevant proportions of service either side of the change.[1]

The history is further complicated by Government changes to state pensions. Like many other private sector pension schemes of the time, the Clergy scheme was contracted out of SERPS/S2P until 2010, so neither SERPS[2] or S2P benefits would have been accrued by Clergy members, with Clergy members and employers receiving a National Insurance rebate, until this point. Between 2011 and 2016 a clergy scheme member would have accrued extra pension in S2P, provided their earnings were sufficient. From 6 April 2016 the Basic and Additional State Pensions were replaced with the new, higher, flat rate State Pension (with transitional arrangements in place to reflect members' contracting out history prior to 2016). Those reaching State Pension age before 6 April 2016 continued to receive the basic State Pension. The new state pension is approximately 30% higher than the basic state pension.

Estimating retirement incomes over time

These various changes to the benefit structure and state pension have led to different outcomes over time. It is clearly the case that clergy pensions relating to service after 2010 are less generous than those earned prior. The effect of this will become more pronounced over time as clergy retire with a greater proportion of their service accrued after 2010.

However, there is also an offsetting effect relating to the higher state pension, which is complicated by the abolition of S2P and its replacement with the new higher state pension, which makes this harder to see. Because these changes make it difficult to compare outcomes over time, this analysis has been prepared to try to provide some clear comparators of retirement income experience across different generations of clergy.

Methodology

This analysis takes a series of snapshots at 10-year intervals. In each case, the member is assumed to have retired after April of the given year, at age 68 and having completed maximum pensionable service (full-time) at incumbent level. For the member retiring in 2024, a service period of 41.5 years is assumed. These common assumptions are used to isolate, as far as possible, the effects of how the benefit changes apply differently over time.

The analysis looks at the estimated pension received by a cleric who retires in each of 1984, 1994, 2004, 2014, and 2024. The analysis considers estimates of both clergy and state pension income. Having calculated the starting pension for each snapshot year, the analysis then rolls forward the pension based on the actual or estimated

[1] There were also minor changes in 2008 and various changes to the pre-1998 scheme. Benefits are calculated according to the service accrued under the prevailing rules during that period of service.
[2] The State Earnings Related Pension Scheme.

increases applied each year to the next decadal point. In effect this provides an estimate of how a pension will have grown over time, so that it can then be compared with the starting pension for someone retiring a decade later.[3]

This back-calculation approach is not without its difficulties. Clergy pensions have been calculated based on the Rules in operation at the relevant point. State Pensions are harder to calculate because of the various changes in approach over time and the difficulty in obtaining data on state pension increases over the whole time series. It should be noted that where 2024 figures are not already available, a standardised assumption of a 5% increase has been used. (This assumption is for the purpose of this exercise only, and can be updated when actual figures are available.)

Actual experience for a member of the same age with the same service may differ from the estimates provided below for other reasons such as an individual's marital status, any caps in service and their National Insurance record. The analysis assumes the member has not made any additional voluntary contributions and does not consider any other retirement income that might be due. Nonetheless these figures give a reasonable estimate and basis for comparison.

Lastly, all figures have been rounded to the nearest £100 to avoid spurious accuracy especially given the number of assumptions that have had to be made.

Results

In the following tables, the rows show the year in which the member retired. The columns show the estimated value of their pension in a given year, allowing for indexation. Table 1 shows the benefits from the clergy pension schemes. Table 2 shows the estimated state pension. Table 3 shows the combined income.

Table 1: Clergy Scheme Benefits

Clergy scheme benefits	**1984**	**1994**	**2004**	**2014**	**2024**
Retired in					
1984	**4,000**	6,200	8,000	11,100	15,700
1994		**8,100**	10,500	14,600	20,700
2004			**11,300**	15,800	22,400
2014				**14,900**	21,100
2024					**16,800**

[3] For example, what the 1984 retiree would be receiving in 2024 for each of clergy and state pension following annual increases. Of course, the 1984 retiree would be an improbable but not impossible 108 years of age by 2024.

Table 2: Estimated State Pension[4]

State pension	1984	1994	2004	2014	2024
Retired in					
1984	**1,900**	3,000	4,100	5,900	8,500
1994		**3,000**	4,100	5,900	8,500
2004			**4,100**	5,900	8,500
2014				**5,900**[5]	8,500
2024					**11,100**[6]

Table 3: Combined Clergy Pension and State Pension

Combined	1984	1994	2004	2014	2024
Retired in					
1984	**5,900**	9,200	12,100	17,000	24,200
1994		**11,100**	14,600	20,400	29,200
2004			**15,400**	21,700	30,900
2014				**20,800**	29,600
2024					**27,900**

The tables show that:

- The clergy starting pension for each of the 1994 and 2004 retirees was greater than the indexed pension from the previous cohorts in the same year.
- The clergy starting pension in 2014 is higher than the starting pension a decade earlier, but lower than the indexed value of the pensions that the 2004 pension cohorts would be receiving.
- The clergy starting pension in 2024 is slightly higher than the starting pension a decade earlier, but lower than the indexed value of the pensions that the 1994, 2004, and 2014 pension cohorts would be receiving. This follows because the 2024 retiree would have a greater proportion of service post the 2011 benefit changes than the 2014 retiree.
- By contrast, the illustrative state pension is higher for the 2024 retiree than for the earlier cohorts, even accounting for the replacement of S2P.
- The combined state and clergy pension for the 2024 retiree comes out at an estimated £27,900 per annum on commencement. The tables suggest that the higher state pension has mitigated the impact of the lower clergy pension, but not fully. However, a potentially important reason for this may be that the National Minimum Stipend has lagged behind inflation over the last two years. Starting pensions for members within the clergy scheme are calculated with reference to the previous year's National Minimum Stipend.

Conclusions

As noted above, this analysis is limited by the available data affecting back calculation of state pensions, and individual experience will differ from this hypothetical case. Nonetheless, the analysis confirms that clergy pensions are lower for those with a higher proportion of post 2011 service. This will be due to two factors: the change in the accrual rates set by Synod and the growth of the National Minimum Stipend relative

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[4] The table shows the state pension in payment at age 68, assuming its drawn at State Pension Age
[5] For simplicity this excludes any S2P earned from January 2011 to early 2014
[6] This figure assumes the retiree has earned the full singe tier state pension entitlement

to inflation. The former relates to the Rules of the scheme; the latter to the decisions of the Central Stipends Authority.

The analysis does suggest that the assumption made in 2010 – that the reduction in benefits from 2011 would be offset by higher state pensions – has some substance, even with the later abolition of S2P.

Comment

This is a research note not a policy document. It is noted though that there has been some discussion in parts of the Church about the possibility of further changes to benefits or even some sort of retrospective change.

As a matter of fact, the benefit structure can be amended for future service through an amendment to the Rules of the Scheme which would have to be approved by the General Synod. All other things being equal, it would be reasonable to expect that any increase in benefits would also result in an increase in the future service contribution rate. It is beyond the scope of this note to speculate on the cost of that.

A second way in which benefits may be increased for those not yet retired would be through an increase in the National Minimum Stipend (NMS). Starting pensions are based on the previous year's NMS and therefore increases in the NMS flow through to starting pensions. To the extent that the NMS falls behind / matches / increases more than the rate of inflation, so does the starting pension.

In terms of any change with retrospective effect, this would require careful investigation to determine the legality, and unintended consequences, as well as the cost. It might indeed engender more resentment, challenge, personal tax liability, and administrative burden than any perceived benefit. It should also be noted that if there was an appetite by the Church to target a higher pension, there may be other ways to achieve this, including – within a few years – the possibilities opened up by new legislation for collective pension schemes (so called – 'collective defined contribution'). Such a scheme might offer a route to a higher target pension at a lower cost than uprating of traditional DB benefits.