GENERAL SYNOD

Private Member's Motion on Clergy Pensions

Summary

This note should be read alongside (i) GS 2330A from Revd Dr Ian Paul who will propose the motion: 'That this Synod request the Archbishops' Council, the Pensions Board, and the Church Commissioners to work together to find a way to make use of the whole range of assets and resources across the Church to enable the restoration of the clergy pension to its pre-2011 benefit level as soon as possible'; and (ii) the technical note GS 2330T from the Church of England Pensions Board which sets out the history of changes to the Church of England Funded Pension Scheme (CEFPS) since its inception in 2008.

Background

1. The changes made to the CEFPS in 2008 and 2011 in respect of pension benefits that would be earned from future service changes were made in the context of the Global Financial Crisis. General Synod voted for these changes to keep the Scheme affordable in the face of a large funding deficit in the scheme and to limit to some extent the required increase in contribution rates.
2. The funding challenge was not unique. The same factors affected pension schemes for other organisations within and outside the Church, many of which closed their Defined Benefits schemes either completely or for new entrants. Most if not all Defined Benefit Schemes that remained open reduced the benefits for future service. For example, the National Church Institutions switched to a Defined Contribution Scheme for staff commencing service from mid 2006 and reduced the future service benefits for those in the Defined Benefit scheme which was subsequently switched to a career average scheme. Most dioceses and cathedrals took similar actions for their pension arrangements.
3. The changes made in 2008 and 2011 ensured the survival of the clergy defined benefit scheme at a time when defined contribution schemes were becoming the norm.

Adequacy of the pension scheme benefits

4. In his paper, Revd Dr Ian Paul rightly recalls the Synod resolution from 2007: *"That this Synod (a) endorse the recommendations contained in paragraph 52 of GS 1660, and (b) request the Archbishops' Council, in the event that the pensions climate improves sufficiently, to bring forward recommendations to the Synod, after consultation with the Pensions Board and the Church Commissioners, with a view to restoring pension levels."*
5. However, it is worth noting that this resolution was passed when relatively modest changes to the pension benefits in respect of future service were made. When more significant changes were made in 2010, the recommended changes were endorsed by the General Synod with an amendment made to "*invite the Archbishops' Council's Deployment, Remuneration and Conditions of Service Committee (i) to convene a small working group to consider the effect that these recommendations will have on the performance, deployment and morale of the clergy and on the wider mission of the Church and (ii) in the light of the group's findings to offer guidance on these matters to bishops and archdeacons within the next two years*." A summary of this work was reported back to General Synod in GSMisc 1010.

6. The Council most recently reviewed clergy pensions as part of the Clergy Remuneration Review, which was carried out by the Remuneration and Conditions of Service Committee (RACSC) between January 2020 and June 2021. The Review's report was published in July 2021 as GS Misc 1298, and the subject of a take note debate at the February 2022 Group of Sessions.

7. In concluding that the "the current level of pension (when combined with the state pension) is adequate" (paragraph 8.52) this Review declined to make recommendations to increase the level of benefits on affordability grounds (Annex 3, page 92). This was based on diocesan feedback and work commissioned for the Review from actuaries Barnett Waddingham. However, it was recognised "*that there might be unique pressures for clergy based on their individual circumstances" (para 8.52)*

8. General Synod's 2007 resolution is explicit though that the matter should be revisited "in the event that the pensions climate improves sufficiently…" As the Barnett Waddingham work showed, at the time of the Clergy Remuneration Review in 2020/21, the pensions climate had arguably not improved materially compared to 2007. For example, interest rates and gilt yields remained at historically low levels, driving up the cost of providing future pension benefits, and the CEFPS still had a significant funding deficit. In the last year or so however, there are reasons for thinking that the "pensions climate" has improved.

9. The most recent full valuation of the CEFPS, concluded late last year, reported that the funding position of the scheme had improved materially. Whereas the scheme had been in deficit (i.e. the estimated cost of pension promises exceeding the value of assets) almost since its inception in 1998, the valuation reported the scheme was in surplus for the first time. This enabled the Pensions Board as trustee of the scheme to reduce the contribution rate charged to responsible bodies from 39.9% of the previous year's National Minimum Stipend that had been in pace since the start of 2015 to 28.0% from the start of 2023 (an interim rate of 36.0% applied between April and December 2022). From the start of 2023, this enabled dioceses to request lower parish share contributions than would otherwise have been the case and, to some extent, increase clergy stipends by a greater amount that might otherwise have been the case.

10. More generally, only in the last year have interest rates and the yields on government bonds increased back to levels seen before the Global Financial Crisis. It does not look likely that rates will revert back to the historic lows of the last decade any time soon. Inflation has also been higher than we have become used to and the economic outlook and investment conditions are relatively lackluster.

11. However, although the pensions climate may have changed, the economic climate and its impact on church finances has also changed, impacting the affordability of any reversal of the changes made in 2008 and 2011 that might be contemplated. Diocesan Boards of Finance (which are the Responsible Bodies charged with meeting around 90% of the contributions paid into CEFPS although they rely on parish share for over 60% of their annual incomes) have recorded aggregate deficits of just over £100m between 2019 and 2022. Aggregate deficits of at least £40m p.a. are forecast for 2023-25. This is in contrast to the aggregate annual surpluses recorded in Parochial Church Councils (PCCs) since 2012, although it is acknowledged that many individual PCCs will have recorded deficits.

What changes does the motion seek and what might they cost to investigate and implement

12. In their retirement clergy with stipendiary service receive the state pension alongside a clergy pension. An analysis of the combination of these two pension entitlements for those having completed the maximum (full time) pensionable service at incumbent level is set out in the Appendix to GS 2330T. This analysis shows that although the clergy pension entitlement for such clergy retiring in 2024 is expected to be 25% less than those who retired in 2004 (but 7% more than those who retired in 1984), their clergy and state pension combined entitlement is likely to be around 10% less than those who retired in 2004 (but 15% more than those who retired in 1984).

13. The figures in table 3 – showing the combined clergy and state pension - may also be compared with the clergy stipend. Assuming a 5% increase in the National Minimum Stipend (NMS) and the National Stipends Benchmark (NSB) from April 2024, these figures will be £28,134 and £30,066 respectively. It can be seen that the combined maximum clergy and state pension exceeds the NMS in the majority, but not all, of the illustrations but is less than the NSB in most cases.

14. The motion seeks the restoration of the clergy pension to the pre 2011 benefit levels – i.e. to reverse the changes agreed by General Synod in 2010[1]. However, it is not clear whether the motion seeks to do this only in respect of benefits earned for future service from a date to be determined or to seek to uprate benefits earned since the start of 2011 to the level that would have been earned had the changes agreed by the General Synod in 2010 not been made. So these two interpretations will be discussed in turn.

(i) Increasing benefits in respect of future service only

15. This would reverse the first three changes set out in paragraph 10 of GS 2330T in respect of future service from a date to be determined, i.e.

- Decrease the accrual rate from 41½ years to 40 years,
- Decrease the Normal Pension Age from 68 to 65,
- Increase the proportion of the (previous year's) National Minimum Stipend on which the starting pension is based from one-half to two-thirds

16. The Archbishops' Council would need to commission the Pensions Board to obtain the necessary actuarial advice to assess accurately the future contribution rate that would need to apply if these changes were to be made through the necessary amendments to the Scheme Rules which would require General Synod approval. The work to assess the future contribution rate would need to be funded by the Council and might be relatively modest, perhaps in the region of £10,000.

[1] In 2010 changes were also made in respect of ill health early retirement and surviving civil partners. It has been assumed that the motion does not seek to amend these changes.

17. In the absence of a formal assessment and in the interests of trying to provide some scaling, Finance team staff have made an estimate assuming the costs would increase pro-rata with benefits based on the current contribution rate set following the end 2021 full valuation and no other changes. This leads to an illustrative estimate that these changes might increase the current contribution rate from the current level of 28% of the previous year's National Minimum Stipend (NMS) to between 40% and 45%, i.e. likely at or a little above the contribution rates in place between 2011 and 2022. This would mean that the Responsible Bodies would need to pay additional annual contributions of between £25m and £35m based on figures from the end 2021 valuation, the recent value of the NMS and the current number of active scheme members.

18. There may of course be other factors to consider, which an actuarial assessment would pick up. In particular the cost of any change would be strongly influenced by prevailing and projected gilt rates, plus mortality assumptions which will inevitably change, sometimes quite significantly, between valuations. Gilt rates are currently higher than they were at the time of the end 2021 valuation which, in the absence of other factors, would be expected to reduce the cost of both providing future benefits and making the change envisaged in the motion. But this cost cannot be quantified without actuarial advice. In any case such figures can only be illustrative at this point as market conditions will change and other factors might emerge by the time of the next full valuation. As is always the case with defined benefit schemes, the cost of providing future benefits can rise or fall, sometimes quite significantly, from one triennial valuation to another.

19. As noted earlier, dioceses are responsible for funding the majority of pension contributions for CEFPS. Taking the mid-point of the range in the preceding paragraph for illustration, additional contributions on this scale would increase their forecast aggregate deficits by around 75% unless mitigated by additional income, for example an increase of around 10% in parish share contributions, or expenditure reductions which could include reigning back on plans for other elements of the clergy remuneration package such as stipend increases, housing provision or Continuing Ministerial Education.

20. It is noted that GS 2330A states that it would not be appropriate to ask dioceses for additional contributions for this purpose. However, it is the legal responsibility of Responsible Bodies to make the required contributions into CEFPS and the paper makes no suggestion as to how additional contributions might be funded. There are comments on the level of assets held at parish, diocesan and national Church level, but it should be noted that it is the income (or return if a total investment return approach is used) from these assets that should be taken into account in forecasts and spending plans.

21. In this context it needs to be borne in mind that the returns achieved on the endowment fund managed by the Church Commissioners has enabled them to increase aggregate planned distributions by 55% over the past two triennia and their on-going core and strategic funding in the current 2023-25 triennium will be more than double the level in 2017-19. In advance of the end 2024 triennial review which will inform the Commissioners' reassessment of available funding for 2026-28 and beyond, any additional calls on Commissioners funding would need to be matched by reductions in other planned expenditure. Although the Commissioners have been able to agree significant increases in the funding they have provided in support of the Church's

mission and ministry in the two most recent triennial reviews following very high investment returns, there can be no guarantee that this will be the conclusion following future such reviews.

22. In respect of paragraph 11 of GS 2330A it should be noted that the Church Commissioners have achieved a total return averaging 10% per year over the past 30 years. Over this period the assets under their stewardship have grown by an average of 5% per year in nominal terms, and around 2% per year in real (i.e. net of inflation) terms.

(ii) Increasing benefits in respect of all service since 2011

23. As noted in paragraphs 22-25 of GS 2330T, if such a step were to be considered there are several complex practical and policy questions that would need to be addressed before considering the cost of making such a change. Investigating the options would require specialist legal and actuarial advice, the overall cost of which is estimated to be least £100,000. This would need to be borne by the Archbishops' Council.

24. The impact of this step on the funding position of the scheme would be very significant: effectively increasing the liability for pensions earned from service since the start of 2011 by a little over 50% as well as requiring an adjustment to pensions already paid in respect of service since then which would be very complex as outlined below and in GS 2330T. The Finance Team's illustrative estimate is that scheme liabilities would increase by somewhere in the region of £0.6billion - £0.7billion if this change were made.

25. If such a move had been included at the last valuation, the change would have turned the surplus into a substantial deficit, requiring a new deficit recovery plan to be put in place and increasing the risk of volatility of contributions that would be required following future valuations. The additional cost of a deficit recovery plan would depend on a range of factors including the length of a recovery plan, investment growth assumptions and subsequent actual returns.

26. Practical implementation would be challenging, requiring specialist legal and actuarial advice. The implementation period would likely be lengthy – years rather than months – and would require considerable staff time in the Pensions Board which would probably need additional fixed term staff.

Other possible options

27. It is noted that in GS 2330T, the Pensions Board also identifies alternative ways in which an objective of more generous clergy pensions might be realised. One of these was also identified in the Clergy Remuneration Review report as a potential longer term consideration. The cost of implementing any such alternative options would need to be assessed and considered.

Conclusion

28. In considering the motion the General Synod will need to consider a range of factors including:

    - the cost of obtaining professional advice and staff time that would be needed to assess the full cost and consider the implications and practicality of restoring clergy pension benefits to the pre 2011 level
    - the likelihood of the necessary funding being found to deliver such a change on a sustainable basis, and the trade-off in terms of reductions to other national church funding
    - to what extent making such a change might impact on other elements of the clergy remuneration package
    - where this change might rank against other spending priorities
    - how the risks of any deterioration in the funding position of CEFPS would be managed

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October 2023

Published by the General Synod of the Church of England
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