

GENERAL SYNOD

**Technical Note to accompany GS2330A
prepared by the Church of England Pensions Board as Trustee
and Administrator of the Church of England Funded Pension Scheme**

Executive Summary

This is a technical note prepared by the Church of England Pensions Board (“the Board”) as Trustee and Administrator of the Church of England Funded Pensions Scheme (“CEFPS”, commonly called the ‘clergy pension scheme’) in relation to the Revd Dr Ian Paul’s Private Member’s Motion on clergy pensions.

The Board’s role in relation to the CEFPS is to oversee (as Trustee) and administer the Scheme in line with the Scheme Rules approved by General Synod. This means that it is Synod, rather than the Board, that ultimately sets the benefits structure. The Board is also a source of pensions expertise on which the Church is able to draw.

Accordingly, this note provides background on the CEFPS and comments from a technical perspective on the motion. The Board offers no view on the policy questions in the motion. If the PMM is passed, the Board would seek to work with the other relevant bodies on the questions raised and in line with its legal and fiduciary responsibilities.

In summary, a change to the Rules relating to future service is mechanically straight forward provided there is a commitment to meet the resulting future service contribution rate. Retrospective changes would need much more detailed examination, be highly complicated, and may have unintended consequences. There could be a simpler way to address a similar end. Finally, the note identifies a potential further alternative which could be considered.

Background: the CEFPS

1. The CEFPS is a regulated occupational pension scheme for stipendiary clergy and certain other office holders. The CEFPS provides a defined benefit pension (a “stipend in retirement”) together with a lump sum at retirement.
2. The size of the pension depends on various factors including the number of years of pensionable service, and the benefit structure in place at the time of that service. The starting pension is based on the National Minimum Stipend (NMS): pensions are calculated at retirement date as a proportion of the previous year’s NMS.
3. Pension contributions are made by ‘Responsible Bodies’ (typically Diocesan Boards of Finance for parochial clergy). The scheme is non-contributory for members, though members can boost their pension through Additional Voluntary Contributions (AVCs). Following the last triennial valuation, the contribution rate is set as 28% of pensionable stipends (i.e. 28% of the *previous year’s* NMS). No deficit contributions are required.¹
4. The CEFPS covers service from 1 January 1998. Pensionable service prior to this date is covered by the past service scheme which is funded by the Church

¹ For more information on the history of contribution rates, please refer to the answer to Neill Burgess’s question (Q232) from the July 2023 group of sessions.

Commissioners. Clergy with service prior to 1998 will have a mix of benefits under the past service scheme and the CEFPS. The Board administers both schemes so that scheme members have a single port of call for pension queries and administration.

5. The benefit structure is set out in the Scheme Rules. Any changes to the Rules – including the benefit structure – require the approval of the General Synod.
6. Information on the CEFPS can be found on the Church of England website at: <https://www.churchofengland.org/resources/pensions/clergy-pensions>. This page includes various guides for members. The Scheme Rules and Amending Deeds are also on the website.

Changes to the Rules since 1998

7. The CEFPS as adopted in 1998 essentially carried over the benefit structure from the past service scheme. Synod has approved significant changes to the benefit structure on two occasions since.² On each occasion, the Synod record shows that the driver for change was to reduce the current or anticipated cost of the CEFPS to the dioceses.
8. The key changes are summarised in the following table:

	Measures Pre-1998	CEFPS 1998-2008	CEFPS 2008-2011	CEFPS 2011- NOW
Scheme type	Defined benefit – a pension for life			
Pension details	Up to two thirds of NMS, with accrual rate of 1/37.	Up to 2/3 NMS, with accrual rate of 1/37	Up to 2/3 NMS, with accrual rate of 1/40	Up to ½ of NMS, with accrual rate of 1/41.5
Increases	RPI up to 5%	RPI up to 5%	RPI up to 3.5%	
Normal Pension Age	65	65		68

9. The changes applicable for service from 2008 centred around a changed ‘accrual’ rate, which in essence meant that a full pension required 40 years of pensionable service rather than 37 years. The inflation cap on the guaranteed increase was also amended.
10. The changes applicable for service from 2011 were more significant, including:
 - A further increase in the accrual rate to 41½ years,
 - An increase in the Normal Pension Age to 68 from 65,
 - A reduction in the proportion of the (previous year’s) National Minimum Stipend on which the starting pension is based from two thirds of NMS to one half, and
 - Contracting back into the State Earnings Related Pension Scheme.
11. It is important to note that changes to CEFPS only affect pension earned *after* the date of the change. Consider three examples by way of illustration. First, a cleric who entered ministry in 1984 and retires in 2024 will have tranches of benefits under all of the above benefit structures. Second, a cleric who retired in 2012 would have been

² There have been other minor changes during the period, for example amending the criteria for ill health pensions in 2022. For simplicity, these minor changes are omitted from the narrative.

relatively unaffected by the 2011 benefits changes, as almost all of their service will have been prior to the change. Third, a cleric who retired in 2021 with 20 years' service would have had half of their pensionable service under the post 2011 benefit structure. And so on.

12. As noted in the fourth bullet, the other important change in 2011 was that the CEFPS was 'contracted back in' to the State Earnings Related Pension Scheme (SERPS) which later became the State Second Pension (S2P). SERPS was intended to provide an additional state pension. However, employers could contract-out of SERPS if they provided an occupational scheme meeting certain standards. Contracting out resulted in reduced employer and employee National Insurance contributions. The Church was far from alone in contracting out. According to the Synod records of the time, the decision to contract back in to SERPS/S2P was intended as an offsetting move to the reduction in the CEFPS benefits.
13. The picture is further complicated by the subsequent abolition of S2P in 2016. From 6 April 2016 the Basic and Additional State Pensions (i.e. S2P) were replaced with the new, higher, flat rate State Pension. By way of illustration, this year, the full basic state pension is £156.20 per week. This is effectively the limit of the state pension that a contracted out pre-2011 retired cleric would receive. The full new state pension is ~30% higher at £203.85 a week.
14. An attempt to estimate the combined effect of the various changes over time is set out in the appendix to this paper.

A commentary on the motion

15. The Board does not take a view on whether the benefit level should be changed as proposed in the motion. That is properly a resource allocation decision for Synod and other bodies. The following comments cover process and technical considerations.

Amending the Rules relating to future service

16. The motion seeks "restoration of the clergy pension to its pre-2011 benefit level". Changing the benefit structure for future service – i.e. pensionable service from the date of a change – would not present any significant technical difficulty. It would introduce a further tranche of benefits, such that at retirement, benefits would be calculated with relevant shares of service under each tranche of benefits.
17. As with previous benefit changes, the effect of the change would be more greatly felt by those with a greater period/proportion of service after the date of the change.
18. From a technical perspective, the Board would have to draw up an amending Deed to the Rules, which would require the approval of General Synod before it could be operative.
19. The Board would first wish to calculate a new Future Service Contribution Rate based on the new, higher, benefits level. The Board has not made any estimate of what this would be, as any calculation would also sensibly consider changes in other factors at the same time. It may be desirable therefore to align the effective date of a change with the results of a triennial valuation.

20. The Archbishops' Council could commission the Board and its advisers to estimate the new Future Service rate; this need not be particularly expensive.
21. In summary, the process is comparatively straight-forward. It would be for Synod to consider the overall business case, including cost.

Retrospectively amending service post-2011

22. It is unclear from the motion whether "restoration of the clergy pension to its pre-2011 benefit level" is proposed to be retrospective.
23. The Board would need to take advice on the legality, practicality and implications of any retrospective changes to benefits. The list of issues to consider would be lengthy and might include the potential for personal tax liabilities for members, and the benefits of those who have died in the intervening period.
24. The Board would look to the Archbishops' Council to fund the cost of undertaking the work, and it may be appropriate for certain aspects to be commissioned by the Council and Board separately to avoid conflicts of interest. While estimates of the costs of doing the legal and actuarial work have not been sought, one might reasonably expect the overall cost on professional advice to run into six figures.
25. A retrospective change would also come with a significant increase to the accrued liabilities, which would have to be factored into a valuation of the scheme to assess whether and to what extent there is a funding shortfall, and the resulting contribution rate.

Interaction with the National Minimum Stipend

26. As noted above, all starting pensions are determined with reference to the (previous year's) NMS. There is an important implication of this which may be overlooked, namely that to the extent that the previous year's NMS varies from the rate of inflation, the real value of the starting pension changes. This means that if the NMS does not keep pace with inflation over time, the starting value of pensions reduces in real terms.³ Conversely, if the NMS increases ahead of inflation, the starting value of pensions rises in real terms.
27. An increase in the NMS would be a mechanically simpler way to augment pension benefits for those who have not retired. It would not require a Rule Change and the implications for liabilities and contribution rates would be captured in the triennial valuation as one among other 'experience' items. The issues and complications associated with seeking to change the Rules retrospectively would be avoided.
28. Of course, there would be other implications, including an increased minimum stipend for those on common tenure who receive the NMS (typically curates).

³ Once in payment, pensions are guaranteed to increase by the RPI measure of inflation to a cap of 5% for service pre-2008 and 3.5% on service post 2008. In years where actual inflation is greater than the guaranteed increases, the Board may consider (but is not obliged to) exercising its powers to grant a discretionary increase. This discretionary power was used for the first time to provide for a 10.1% increase to pensions in payment from April 2023.

An alternative?

29. As the motion implicitly recognises, all other things being equal, a higher level of future benefits in the CEFPS would imply higher pension contributions, i.e. increased cost for the Responsible Bodies.
30. It is worth noting that there could be another way to target higher pension benefits without the commensurate increase in costs.
31. Pensions legislation in the UK is being broadened to permit the introduction of a different type of pension scheme. Known in the jargon as 'Collective Defined Contribution' or 'Collective Money Purchase' pensions, these types of pension have been operative in certain other countries for some time but are new to the UK.
32. In such a scheme, contributions go into a collective fund which provides a monthly income in retirement to the member. The scheme targets a rate of increase in the monthly pension, which the Trustee would vary according to the scheme funding level.
33. This means that good investment performance is effectively returned to members through higher pension increases or higher targeted future increases. Poor experience would imply lower targeted increases, which in extremis could even be a decrease. This flexibility means that for the employer, the cost of contributions is fixed and there is no concept of deficit recovery plans.
34. This flexibility also means that the same £n contribution in a CDC scheme can target a higher level of benefits than it would in a traditional Defined Benefit scheme where the guarantees require a margin for prudence. Clearly, if such a scheme were to be proposed for clergy, there would have to be full consideration of the trade-off between higher benefits and guarantees.
35. The *Clergy Remuneration Review* (GS2247) drew attention to this new type of pension arrangement (Recommendation 17) and the Board continues to monitor these developments and engage with the Department for Work and Pensions as it develops the legislative and regulatory framework for such schemes. Although the regulatory details will not be available for some months yet, the lower costs, higher returns and greater fairness are of great interest.
36. The Board also notes that CDC has the potential to deliver much better outcomes for those in DC schemes who do not enjoy traditional defined benefit pensions. Potentially therefore, CDC could provide a compelling alternative for 'lay' pensions in the future.

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on behalf of the Church of England Pensions Board

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Appendix: Estimating the effect of changes to CEFPS benefits¹

37. This appendix is a research note 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.
38. The various changes to the benefit structure and state pension described in the main paper above led to different outcomes over time. 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 on household income relating to the state pension, itself affected by various changes. 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

39. 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.
40. 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 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.⁴
41. 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.)
42. 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.

⁴ 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.

43. 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

44. 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

Table 2: Estimated State Pension⁵

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 ⁶	8,500
2024					11,100 ⁷

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

45. 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 points.

⁵ The table shows the state pension in payment at age 68, assuming its drawn at State Pension Age

⁶ For simplicity this excludes any S2P earned from January 2011 to early 2014

⁷ This figure assumes the retiree has earned the full single tier state pension entitlement

- 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. (And hence, this effect would grow over time.)
- 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

46. 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 and the growth of the National Minimum Stipend relative to inflation. The former relates to the Rules of the scheme set by Synod; the latter to the decisions of the Central Stipends Authority. The analysis also suggests that the assumption made in 2010 – that the reduction in benefits from 2011 would be offset by higher state pensions – has been borne out to some extent, but not fully.

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