GENERAL SYNOD

Follow up to February 2024 Stipends and Pensions Debate

Executive Summary

This paper provides an update on work following the February 2024 resolution on clergy stipends and pensions. It summarises steps already taken and outlines further areas of work to be developed in parallel with the Diocesan Finance Review and the triennium funding review.

Background

1. At the February 2024 Group of Sessions, the Synod unanimously resolved:

   'That this Synod

   a) request the Archbishops' Council, the Pensions Board, and the Church Commissioners to work together with dioceses to explore ways in which the level of clergy pensions and stipends might be improved in a sustainable manner, with reference being made to the impact of changes to clergy pension benefits and the National Minimum Stipend (NMS) since 1998, including the change in level of the pension benefit from 2/3 of NMS prior to 2011;

   b) in doing this work to have regard to the findings of the Clergy Remuneration Review (GS 2247 and GS Misc 1298) and in particular the policy that the National Minimum Stipend should, in future, on average, increase in line with inflation (as measured by CPIH) subject to three yearly reviews and the need to review this position if high levels of inflation establish themselves; and

   c) request the Archbishops' Council, the Pensions Board and the Church Commissioners to consider what steps may be taken to remedy the fall in the real value of pensions for clergy retiring since 2021, and to avoid such a fall reoccurring in any future period of high inflation.'

2. Papers relating to this item may be found on the Synod website. These include the original paper from Revd Dr Ian Paul and a note from the Secretary General. In addition, the technical papers from the Church of England Pensions Board cover the background and history of clergy pensions and some analysis of comparative pensions for different clergy cohorts, and the potential costs associated with increasing pension benefits.[1]

3. The scope of the motion is broad and its financial implications could be significant. However, there is determination to identify a good response to the motion which seeks to affirm stipendiary clergy and support the fostering of the vocations to stipendiary ministry required by the Church. This paper provides an update on two steps already taken and identifies further areas of work.

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[1] The Synod papers may be found at: General Synod February 2024 | The Church of England The Technical Notes are: https://www.churchofengland.org/sites/default/files/2024-02/gs-2330t-technical-note-to-clergy-pension-pmm.pdf and https://www.churchofengland.org/sites/default/files/2024-02/gs-2330t1-further-technical-note-for-clergy-pension-pmm.pdf

Steps taken already

4. Two initial steps have already been taken since the motion was first scheduled as contingency business in November 2023.

Increase in the National Minimum Stipend

5. First, the Archbishops' Council determined that **the National Minimum Stipend (NMS) would rise by 7% from April 2024**. This has two important effects. It provided an uplift for those on the lowest stipends (typically curates in training). It also increases the starting pension for those retiring from April 2025. In both cases, making back some of the lost ground against the high inflation of the last two years.

6. This higher increase followed on from a reduction in the contribution rate for clergy pensions paid by Responsible Bodies (mostly Diocesan Boards of Finance) following an interim review by the Pensions Board in late 2023. The contribution rate for clergy pensions has fallen significantly in recent years and currently stands at 25% of pensionable stipends[2] from 1 April 2024. (This was down from a rate of 28% from 1 January 2023 and 36% from 1 April 2022, prior to which the contribution rate including deficit recovery was 39.9% of pensionable stipends.)

7. Some dioceses also took the opportunity of this cost reduction to further increase their incumbent stipends, while others continued with their planned increases. The National (weighted) Average Stipend increased by 6% this year.

Addressing the disparity in starting pensions for those retiring in 2023/24

8. Under the Rules and Measure set by General Synod, starting pensions are based on the previous year's National Minimum Stipend. This had an unusual effect for those coming on to pension in the year 2023/24. The increase in starting pensions for the year April 2023 to March 2024 was based on the previous year's NMS increase of 1%. Inflation, by contrast, was much higher. Moreover, pensions already in payment received a higher increase linked to inflation. This included a discretionary element above the inflation caps in the scheme rules.

9. Following considerable work on this issue in the autumn of 2023, the Pensions Board and Church Commissioners resolved at their Spring meetings to provide **an additional 5% uplift to pensions that came into payment in the year 2023/24**. This one-off discretionary uplift was implemented in April 2024 and notified to relevant pensioners.

10. This action goes some way to addressing the issue identified in limb (c) of the motion.

11. A further step could be to change the reference point from the previous year's NMS to the current year's NMS. This would require an amendment to the Pensions Measure 2018 – potentially via a Legislative Reform Order; changes to the CEFPS Rules; and potentially a requirement to determine the NMS for a given April no later than the preceding December so that pension quotes are based on accurate data. This set of changes is one of the further areas of work under consideration.

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[2] Pensionable Stipends being the previous year's National Minimum Stipend. Note that prior to January 2023, the contribution rate covered both future service and deficit recovery contributions.

Further work

12. These initial steps begin to make progress on the motion, but there are a number of other issues to consider.

13. The most significant is what to do with **stipends**. A significant increase in stipends would recover ground lost to inflation in recent years. However, it is clear that dioceses have limited financial capacity to fund a material increase in stipends at this time. Accordingly, any step change increase in stipends (and other benefits that cost money) needs to be considered in parallel with the Diocesan Finance Review and triennium funding process later this year and into 2025 to create a holistic set of proposals.

14. A further question to be considered is whether annual increases to stipends should be more formulaic, e.g. *generally* uprated by inflation as measured at the previous September (the reference date used for state pensions and benefits and clergy pensions), which would simplify the present arrangements.

15. Increasing the NMS is also the most efficient way to uprate starting **pensions** and mitigate the effects of changes to accrual rates since 2011.

16. As noted above, this would be further helped if starting pensions used the current year rather than the previous year as the reference point. The 'previous year' formulation is historic – dating back well before 1997. It may have originally been used as a proxy for final year's salary, or it may have been a practical provision dating from a time before pensions calculations were computerised. Whatever the reason, it appears that there is no fundamental barrier to changing to the 'current year's NMS' provided that the NMS for a given April is determined no later than (say) mid-December of the preceding year. (This would be another argument for a formulaic approach for increasing stipends.) As noted above, this would require both a change to the Rules and an amendment to the Clergy Pensions Measure 2018 – it would not be practical to do one without the other. There would also be a one-off cost impact which would have to be considered as part of the work described above.

17. As noted in the technical papers, because financial conditions since 2022 have eased with higher interest rates reducing the actuarial 'cost' of buying future pension benefits, there may be some scope for improving pension accrual rates for future service. This needs to be considered carefully to minimise the risk of increases in pension costs if market conditions become less favourable, i.e. the problem which led to the 2011 changes following the Global Financial Crisis. More work is required in this area to consider the opportunities, risks and trade-offs, and it would be sensible to do this in parallel with the forthcoming statutory valuation of the pension scheme which is due as at 31 December 2024.

18. Finally in relation to pensions, as noted in the Technical Papers, there is a new (to the UK) type of pension enabled by the Pensions Act 2021 – Collective Defined Contribution. This could present an interesting alternative approach – offering significantly higher target pensions for a similar cost, albeit without the same strength of guarantees in a defined benefit pension structure. The Regulations for such schemes are expected to be published later this year and the Pensions Board is continuing to engage with policy-makers on this, particularly given the significant potential it offers for "lay" Church employees.

19. While Stipends and Pensions are the focus of the motion, it makes sense to consider two other areas as part of the review.

20. The first is to look at whether there is a case and mechanism to provide additional support outside of the core stipend for larger **clergy families** with caring responsibilities for whom living on the stipend is a struggle even with an uplift, especially in light of the transition to Universal Credit.

21. Second, whether there is scope to **simplify various policies and practices** which differ so heavily by dioceses, for example, maternity, paternity and adoption arrangements.

22. Third, the Pensions Board's work through the *Enabling Choice* consultation process identified ways in which the Church might assist its stipendiary clergy with **financial planning and housing needs in retirement** – including potentially seeking to overcome the barriers that make homeownership particularly complicated for stipendiary clergy provided with tied-accommodation for better performance of their duties. The consultation process showed overwhelming support for the concepts presented, particularly from younger clergy. The ideas that most resonated are now being worked up into proposals to be considered among the many priorities for national church funding.

Next steps

23. The areas identified for further work will be taken forward over the summer to inform the work of the Triennium Funding Working Group which will begin to convene later this year. This provides a framework to consider specific proposals alongside the opportunity costs and informed by intergenerational equity considerations.

24. Progress on stipends and pensions remains a joint effort across the National Church Institutions. What and how much is possible remains to be seen. However, it is important that we see this work in the context of fostering, nurturing and affirming vocations, and God's mission through his Church.

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Clive Mather, Chair of the Church of England Pensions Board
Alan Smith, First Church Estates Commissioner

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