

Unite Response to the Church of England Pension Scheme Consultation

Introduction

Unite ran a consultation exercise with its members in the Church of England over the proposed changes to the pension scheme. We asked members to provide opinion on each of the suggested areas of change and also asked members for suggestions of other cost savings that could be considered by the Church of England. We had a 5% response rate from our members.

We have also sort advice from our pensions expert, Mr. Freake.

In addition, Unite has been following, with concern, the news in the public arena regarding the investment policy of the pension scheme, and due to the breaking news of this, decided that we needed to incorporate comment on this.

Use of a Benchmark

Whilst many diocese follow the National Minimum Stipend, there are those that award a higher stipend. There is therefore concern that the minimum, rather than the average stipend is used, since the latter figure is likely to be closer to that earned by the majority of the clergy.

The document claims that the pension scheme, for those with 40 years service, will be placed in the top 20% of retirement incomes. In addition most people with a good occupational pension scheme with 40 years bonus are likely to be placed in the top 20% also. Unite believes that this is not a true comparator since clergy are compromised by their housing detriment, having to find a property at the end of their working life.

Distribution of Contributions

Documentation should make it clear to scheme members, the spread of contributions between deficit payments and future contributions. The future service contributions would appear to be 28%.

In the light of the Church of England being an asset rich organisation, an approach should be made to the pensions regulator to extend the Schedule of Contributions for guaranteeing payment of the deficit to help distribute more into the future benefits pot. Unite has learnt that one organisation is currently discussing a 25-year plan with the Pensions Regulator.

Investment Portfolio

Unite are clearly very concerned about the choice of investment portfolio that the Pensions Board selected to invest the pension scheme. In the light of this mistake, Unite would urge the Pensions Board to ensure that future investments are not fully equity dependable and that the risk is reduced. Clearly the Pensions Board was prepared to accept risk at the price of reducing the cost of the pensions in the long term, however it is not acceptable to scheme members that the deficit is used as a key part of the justification for lower benefits for the members.

In the light of the recent press, it is essential that more stable investments are sought.

Valuation

From considering the basis of the 2006 Valuation of the Scheme, it showed a deficit of £141m and recommended future employer contributions of 39.7%, comprising 34.5% for future benefits and 5.2% (for 15 years) for deficit payments.

A critical assumption in that valuation was that the future investment return assumed was 5.75%. This was essentially 1.5% above the gilt yield on the valuation date. This was a cautious assumption given the relative immaturity of the scheme and the fact that it is 100% invested in equities.

As we were told that all subsequent costings have been rolled forward from the 2006 valuation basis. This approach is highly questionable against the background of the fall in share prices which has been the major factor inflating later estimates of cost. If share prices fall it depletes the scheme assets but it might be expected as a result that in the future the return on those assets would be greater. So there is a strong case to argue that the future investment return should be higher in these circumstances.

The significance of this is that a revision of this assumption would have a substantial impact on the projections of future costs. It would also mean more could be afforded within a 42% budget.

The 42% figure appears to be a somewhat random number selected from a possible range and no explanation was given apart from a feeling that it seemed about the maximum level that might reasonably be afforded. The problem with it as a basis of planning is that it incorporates deficit payments which are inherently unstable. It would therefore be better to plan on the basis of a figure for future service cost only. If the Pension Board sets in stone an expectation of 42% for the future then we would worry about what would happen if future cost varied from that, as it inevitably will. If costs rise would it automatically set in train proposals to further curtail scheme benefits? If costs fall we can guess that the saving might be used to accelerate deficit repayments or build up a reserve rather than be added to future benefit.

Contracting In

The first of the proposals is to ensure that the scheme is contracted into the State Second Pension (S2P). Our members, on the whole, supported this option, since it shared risk, however some concerns were raised. The documentation produced by the Church of England was weak in outlining the costs and benefits of this option. Members who are overseas questioned how the S2P would impact on them, and would want this explained in any documentation going out. Without exception, members would want a rise in Stipend to cover the additional National Insurance contributions in compensation.

One of our major concerns, however, which came to light after our consultation was the issue of the lump sum. We do not believe that the documentation makes it clear that this will be significantly reduced. In the light that most clergy are dependent on their lump sum at retirement to assist with their future housing needs, we believe that the reduction of any lump sum, cited to have a lump sum of x3 of pensionable pay, needs to be challenged. Unite believes that the lump sum will now need to rise to become a x4 pensionable lump sum.

The second area that needs to be made clear is that the S2P is not payable until the individual reaches State Pension Age. This will therefore make retirement less affordable

Capping the National Minimum Stipend

There was very clear concern from our members about capping the National Minimum Stipend. In effect this is saying that pensionable pay will not increase faster than inflation. The main concern is that the National Minimum Stipend and the actual Stipend could grow apart over time, and dare we say, as a result of the pension, impact negatively on the actual level of Stipend. This would not only lead to greater inequalities in pay as some diocese may want to locally compensate, but also mean that the pensionable pay would reduce in real terms.

The benefits could be eroded, quite significantly over a period of years as a result in the gap between the National Minimum Stipend and actual stipend growing leading to the pension declining as a proportion of a members final pay. The policy itself is likely to have an impact on pay development.

It is important to take account of the fact that this proposal will impact on past service benefits as well, which is something that the report remains silent on. If the National Minimum Stipend is constrained then it will reduce the value of past service below what the Scheme and members expected. We therefore need to have greater understanding of what this saving is expected to be in terms of what reductions in the deficit it delivers.

Increasing the pension age to 68

The proposal to raise the pensionable age higher than the state pensionable age is not popular with the members. This would impact on all scheme members over the age of 28 years. In effect, it means applying for an early retirement penalty on future service pension for each year it is drawn before the age of 65. And although no figure is given for this penalty, it will impact on the accrual rate.

If, for instance, the penalty was 5% for each year the pension is taken early, then in the event of retirement at the age of 65, the half salary or 50% pension after 40 years becomes a 42.5% of salary pension and the accrual rate of 1/80 delivers only a 1/95 pension.

One of the key concerns of our members was that the higher scheme costs on account of ill health retirement or death in service could increase the costs on the scheme. It is well known that the clergy are ready to retire, on the main, before they are reaching the current retirement age. With the change in the nature of ministry and the additional demands and stress associated with this, the long hours culture and so on, clergy were very clear that they did not believe that they could work beyond the current retirement age. An increase in retirement age could therefore not be agreed without first looking at the workload of clergy and the pressures that they are experiencing.

Increase the accrual period to 43 years

This proposal on its own equates to reducing the accrual rate from 1/80 to 1/86 or to reducing the pension earned each year in the scheme by 7%. It would compound the implication of raising the pension age as members would have to work up to three years longer to get the same pension. Again members were seriously not happy for this option to be considered.

Information

Clearly members need to have more information about the pension scheme so that they can make a more informed decision about the options. With the current proposals a member could lose up to 40% of their current benefit – losing 25% of their lump sum, 1.5% of their pension for each year impacted by the cap and losing 20% of pension value on accrual and early retirement if their retire at 65 years. In addition the capping of the National Minimum Stipend will have an impact on past service benefits which will be a further loss to members.

Modelling

We have attached a table to provide a presentation of the results in respect of the DB option (1). This sets out the effects of the capping of the stipend from the other changes.

The (A) results show how the pension benefit would evolve if the National Minimum Stipend was capped at inflation but the actual stipend increased by inflation plus 1.5%. As the figures illustrated the pensions as a proportion of the actual stipend, this produces some large reductions in benefit. The (B) results are based on the actual stipend level and the National Minimum Stipend both moving in line with inflation. This would be very bad from a pay point of view, as members would not be sharing in the rise in living standards expected to be enjoyed by most of the clergy, but it produces much smaller impacts on the pension. It could well be the case that the actual figures rest between these two scenarios.

Defined Benefit v. Defined Contribution

Without exception, 100% of our members wanted to maintain a defined benefit scheme. The proposed hybrid offer would produce a DB element calculated to produce a benefit of 25% of the National Minimum Stipend after 43 years service and have an effective accrual rate of 1/172 and the DC element would comprise an average of 7% contributions. It was therefore not an option.

Other options

As always, our members can be very creative, and therefore we asked them a number of questions to see where they believed that other savings could be made. We asked members if they would consider making a contribution to the pension scheme from their Stipend. Whilst this was seen as a last resort, members would prefer this option rather than to lose pensionable benefits. Members were asked if they made a contribution, what size of contribution would they consider. The mode average suggested was 5% but staged over a period of time, with rises in Stipend to accompany this, (i.e. the contribution rate must not exceed that of the increase in Stipend) and additional resourcing of the Stipend would be necessary by way of compensation. We are aware of this happening in another denomination, but the increase is being compensated for by the rise in Stipend. Others opposed a contribution.

Members were absolutely clear that they would not want to see a reduction in benefits. Since our consultation closed we have had further responses from members to say that in the light of the impact of the market on the 100% equity investment, that they are adamant that as members of the scheme that they should not be penalised for a loss of funds.

Housing was raised by all but one respondent as a way that the Church of England should look to make savings and to move this money into the pension fund pot. Members believed that the size and style of housing was not fit for purpose, and if anything cost them more in utilities. They believed that the Church of England should undertake an urgent property review ensuring that housing was suitable for today's need, and many of the parsonages should be downsized. They said that this should apply to all clergy, including bishops, and believed that this not only brought them closer to the people they were there to serve, but the timing was necessitated by the current financial issues.

Others believed that there should be a reduction of the number of diocese and that there should be mergers between them, cutting costs within the wider church, others said that cuts in the Church Commissioners would help.

Others simply stated that there was a lot of waste and therefore the church should carry out an exercise engaging ministers to help identify savings across the church.

It was suggested that bishops should get the same stipend as all other clergy, as happens with other denominations. We are not aware that any of our responses came from bishops who are our members.

In conclusion

It is clear that this model will have a severe impact on future benefits, which could be as much as 40% for some scheme members. The large part of these cuts in benefits will contribute towards the deficit, whilst a small amount will go towards future benefits (reduced from 38% to 25%) with an extra National Insurance payment of, say, 1.3%. the 38% figure rests on the assumption that the National Minimum Stipend rises by 1.5% above inflation and so relates to the losses on the (A) basis in the attached table.

The overall reduction in money going into future benefits is 30% and so it is not surprising that the pensions it will produce will fall by a similar proportion.

It is clear from our Unite members that they do not believe that the Pension Board is starting in the right place. Whilst they are 100% committed to a DB pension scheme, they have a huge concern about the investment choices that have been made and the impact that this is having on the viability of the scheme and the reduction in benefits.

Whilst our members have demonstrated that there are some areas that they believe are unworkable within the proposals, and some that are unpalatable, they also believe that all have a responsibility for finding ways of reducing the benefit, and have been prepared to share how savings could be made in order to benefit management.

We remain unconvinced that the 42% capping on the pension scheme need be fixed at this level, and with greater savings elsewhere, then the benefits can be maintained closer to their current level.

Clergy Pensions - Unite Analysis of the Benefit illustrations

This analysis illustrates the Pensions Task Group results by expressing them as a percentage of the Stipend at the point a member retires. The (A) basis is where actual stipends rise by inflation plus 1.5% – The (B) basis is where stipends rise in line with inflation

Task Group Example	Age	Past	Service		Projected Pensions as % of the Stipend							
			Future	Total	Current Benefits		Proposed Benefits					
					At 65	At 68	At 65		At 68			
						(A)	(B)	(A)	(B)			
1.	60	30	5/8	35/8	62%	67%	56%	61%	59	66%		
<i>1a. Prospective change in benefit</i>							-9%	-2%	-12%	-1%		
2.	50	25	15/18	40/43	67%	67%	47%	59%	52%	68%		
<i>2a. Prospective change in benefit</i>							-29%	-12%	-22%	+2%		
3.	30	2	35/38	37/40	62%	67%	30%	52%	38%	67%		
<i>3a. Prospective change in benefit</i>							-50%	-16%	-43%	0		
4.	45	0	20/23	20/23	33%	38%	20%	27%	27%	38%		
<i>4a. Prospective change in benefit</i>							-39%	-17%	-29%	-1%		