

Clergy Pensions – Comments on the Task Group Second Report

Bodies responsible for funding pensions are being asked to respond to the report by **10 November 2006**. Dioceses are doing this via the Bishop's Council. A slip was enclosed with clergy stipend payments for July asking that comments be sent to Diocesan Secretaries or e-mailed to the Pensions Task Group at: pensiontaskgroup@c-of-e.org.uk.

There are three options outlined in the report:

Option A

- seeks to retain defined benefits
- will require contribution rates in excess of the current 33.8%
- requires acceptance by clergy of modification to present benefits
- requires the help of the Church Commissioners and consequent reductions in the availability of money for redistribution to poorer dioceses

Option B

- a defined contributions scheme
- gives predictability and sustainability to pensions
- does not increase overall church spending on pensions
- requires radical change to clergy remuneration arrangements
- does not require the help and co-operation of the Church Commissioners

Option C

- would guarantee the long-term security of the defined benefits scheme by going back to the Church Commissioners as the body totally responsible for clergy pensions

Option A seems to be the short term favourite option.

In this option the Task Group excludes from its consideration removal of the lump-sum payment on retirement, and the abolition or reduction of differentials in pension arrangements.

In money terms the latter would not amount to much, it could however have an symbolic significance since there seem to be few gospel arguments for paying a higher pension to an archdeacon or his/ her spouse than to a priest and his/ her spouse.

Option A proposes linking pension increases with limited price inflation (RPI subject to a maximum of 5% with the option to reduce to 2.5% in respect of benefits from future service). **To cut the link with national minimum average stipend.** This would apply to all present and future clergy pensions. The task group at Annex C gives a table illustrating the effect of this in the past 8 years; in the last 3 years the increase in pension has only slightly outstripped RPI because stipend increases have been restricted by the economies being made in the dioceses to pay the pension contribution increases.

In suggesting this the Church is going in the opposite direction from the government in moving to a link with RPI (which in reality means a decreasing standard of living) as the government plans to restore the state pension link with wages for the annual uprating at the end of this decade. It also fails to identify which RPI will be used. The clergy RPI on retirement is very different from that of people who are not in tied housing. Major housing expenditure is being undertaken on retirement by clergy and this needs to be taken into account.

The 2.5% cap on annual increments seems is low. The present government has a target of 2.5% inflation year on year, and inflation currently is above that figure. The probability is that in some years clergy pensions will be capped so there will be a decrease in value even against RPI.

Length of service to qualify for a full pension is to increase from 37 years to 40 years. We already have a situation in which many clergy do not qualify for a full pension because of later ordination so this will inevitably mean fewer clergy will receive the full pension. Some could decide to work on until the age of 70 to enhance their pension but the number of ill-health retirements has been increasing in recent years and this would seem to indicate that 21st century parish life has stresses and strains which people being ordained in the 1960's and 70's did not contemplate at that time.

Some clergy also feel that those who do continue to work beyond the state retirement age should be able to enhance their pensions if this means working beyond 40 years in the same way as postponing receipt of the state pension can enhance that pension when it is finally commenced.

The comments above relate largely to Option A, which is the option that could be implemented most swiftly by the Church, probably in 2007. If it is rejected by the wider church then preparatory work on the other two options will necessitate a later implementation date and opportunity for comment at the appropriate time.

Option B most resembles the private sector pension schemes now being established following the cessation of final salary schemes. Unlike the present scheme and Option A which are defined benefit schemes, it is a defined contribution scheme. The employers costs are capped, the benefits depend on investment returns over the contribution period and annuity rates at retirement. It would provide a lower level of security to the fund member, risk transfers from the employer to the beneficiary. Clergy view this option with trepidation, to remove a guaranteed benefit cannot but lower clergy morale.

A decision to support Option B would require:

- a) a contribution by the clergy from stipend which in turn will need to be increased to enable clergy contributions – this would also incur higher NI and tax payments, and also change the nature of the stipend.
- b) A re-examination of the current remuneration package offered to clergy by the Church including housing arrangements.

Option C seeks to maintain a defined benefit by bringing into play the strength of the Church Commissioners' asset base as the pension fund' permanent guarantor. The pension fund would have first call on the commissioners' resources. It would thus give maximum long term security of funding of the clergy pension fund, more secure than **A** or **B**.

Contributions towards pensions made by the dioceses would transfer from the 1998 Pensions Fund to the Commissioners, as would the remainder of the 1998 Fund. Volatility in contribution rates experienced in recent years would be replaced by the correction of surpluses and deficits in the fund over a much longer period. At this stage it is not known whether the whole of the Commissioners funds would have to come under the oversight of the Pensions Regulator.

Adoption of Option C, it is said, would raise questions about the ability of the Commissioners to fulfil their other duties, such as resourcing poorer dioceses, given first call for the pension fund. Parliamentary consent would also be required making it a longer term option than A.

It should be noted that para. 140 of the report abandons any pretence to implement stipend aspiration 3 of "Generosity and Sacrifice" a stipend of £20,000pa at 2001 prices) on the grounds of affordability. The same para. Also says" The Church will need to return to its longer term approach to stipend policy once the decisions needed now in relation to pensions have been taken. I wonder what this portends?

Finally it is a pity that so little of the report is devoted to the issue of retirement housing which is of great concern to many clergy approaching retirement when the maximum borrowing limit is £125,000 in England and Wales. The suggestion is made that there are buy-to-let mortgage products available from lenders on preferential terms for clergy. My own personal exploration of this proved quite fruitless some three years ago when I discovered that to pay off the mortgage by the age of 70 as required I would need to pay over most of my stipend. Some younger clergy have retained property they acquired in earlier careers but come under considerable pressure from clergy charities to sell these before they can be helped by the charity.

Please feed in your views on the Task Group Report so that adequate representations can be made both on a diocesan and national basis in the required timescale.

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