

# Clergy Pensions

## The Facts

### History

There has been a clergy pension scheme of some sort since 1927 but the present arrangements largely came into effect in 1954. Up until 1997, the full cost of clergy pensions was met by the Church Commissioners who manage the centrally held assets of the Church.

A review carried out in the mid 1990s revealed that, if nothing was done, paying for clergy pensions would eventually absorb all of the Commissioners' investment income leaving nothing left to support those dioceses who have the least resources to fund their mission and ministry costs and the work of Bishops, Cathedrals.

It was therefore agreed (with the approval of both General Synod and Parliament) that the Commissioners' responsibility for paying clergy pensions should be capped to those pension benefits earned up to 31 December 1997. A new scheme was set up to fund all pensions earned from that date funded by contributions made by parishes through their dioceses as part of the parish share/common fund system.

The current annual pension contribution payable for each parish clergy person is £7,797. The scheme is non-contributory i.e. clergy do not pay any contributions themselves towards their pension.

### **What does the scheme provide?**

The normal retirement age for clergy is currently 65 although they may carry on until age 70 if they wish<sup>1</sup>.

The pension paid on retirement depends on the total number of years served. Up until 1 January 2008, the period required for a full pension was 37 years. Since that date it has been 40 years.

The scheme is a defined benefit (final salary) arrangement. The full pension is 2/3rds of the 'National Minimum Stipend', a figure set nationally each year. In addition there is a tax free lump sum of 3 times the pension. The current figures for parish clergy are:-

Full Pension	£13,093 p.a.
Lump sum	£39,279

If a retired clergy person dies leaving a surviving spouse<sup>2</sup>, they receive a pension of 2/3rds of the pension the clergy person was receiving. The current figure (based on a full pension) is:-

Widow(er)s pension £8,729 p.a.

Where clergy have to retire on the grounds of ill-health, they receive a pension based on their service up to that point plus all potential further service to age 65. Where clergy die before retirement age the surviving spouse receives a pension and a lump sum (currently £58,920).

Pensions, once they come into payment, increase each year. For pensions earned up to 31 December 2007 the annual increase is guaranteed to match the increase in the retail price index (RPI) up to a maximum of 5%. For pensions earned after that date the guarantee is RPI up to 3.5%.

### **Why does the scheme cost more than some other schemes?**

The pension contribution of £7,797 p.a. represents 39.7% of the current National Minimum Stipend which may seem high compared to some other schemes. However the clergy stipend is a 'living allowance' rather than a salary and part of the package is that most occupy a 'tied house' (e.g. the vicarage) free of charge. The pension contribution is round 25% of the total value of the stipend and the free house.

The current clergy pension scheme offers the following benefits not always found in other schemes :-

- it is non-contributory
- it pays a pension and a lump sum (many schemes require part of the pension to be given up to provide a lump sum)
- it pays a pension to a surviving spouse
- it provides comprehensive ill-health pension benefits

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<sup>1</sup> There are a few clergy who were already in their current post on 31 December 1975 who do not have a compulsory retirement age.

<sup>2</sup> The benefits for a registered civil partner are calculated in the same way as for a widow or widower. However, in accordance with the legislative requirements for a registered civil partner only service from 5 December 2005 counts towards the calculation together with some entitlement in respect of any contracted out rights earned prior to that date.

## **Why is the scheme being reviewed?**

Like most other defined benefit (final salary) schemes, the cost has increased significantly over the last decade because of increased life expectancy, lower investment returns and increased regulation.

In addition the sharp reduction in share values over the last year and the impact of the recession are having very adverse effects on the funding position. Another significant increase in the cost of the scheme currently looks likely following the next formal valuation which takes place at the end of 2009 unless changes are made.

A Task Group set up by the two Archbishops has published a report setting out some possible options for the future. This is available via the Church of England website [www.cofe.anglican.org/info/pensions2009/consultation.doc](http://www.cofe.anglican.org/info/pensions2009/consultation.doc)

Further copies of this leaflet are also available via the Church of England website.

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