

# Clergy stipends, pensions and other financial issues

A consultation report for dioceses

November 2001

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# Preface

The Church is about to enter a crucial period of debate and discussion about the future of the remuneration package for our clergy and on how the resources available from national sources can best be used to support the Church's ministry – especially in the parishes.

The report commissioned by the Archbishops' Council on clergy stipends (*Generosity and Sacrifice*) was published on 27 September and a summary of that report is contained in this consultation document. In addition, a preliminary report on clergy pensions, commissioned in the light of the recent actuarial review, has been prepared and is also included in this document. The above sections are preceded by an overview of the financial context against which decisions about the remuneration package need to be taken. This section also raises important issues relating to mutual support between dioceses and how national resources might best be deployed to help those dioceses most in need of financial support.

A list of questions on all the above issues follows this preface to which we invite dioceses to respond by 30 June 2002. (Please address your replies to Shaun Farrell, the Council's Financial Secretary.) The significance of the issues under consideration suggests that wide consultation within each diocese will be needed before responses are made and work is under way to prepare a short leaflet on the issues, which you might find useful as an aid in this consultation process.

This consultation document comes to you following preliminary discussion at the General Synod, the House of Bishops, the Archbishops' Council and the Inter-Diocesan Finance Forum, and it reflects a number of the comments made during those discussions.

The past decade has seen parishes successfully take on the major responsibility for funding the parochial ministry but it will be evident that the Church faces a continuing period during which greater emphasis will need to be placed on aspects of its financial affairs.

We face some profound challenges. As we debate them, pray over them and reflect on the choices before us, let us all seek integrated and coherent solutions. Such will enable us to fulfil the trust we have to offer appropriate Christian ministry to the people, both in the present and in the future.

✠ Guildford  
Chairman  
Ministry Division  
Archbishops' Council

Michael Chamberlain  
Chairman  
Finance Division  
Archbishops' Council



# Key questions

## The financial overview

*The following questions relate to the possible future distribution of money by the Archbishops' Council from the Church Commissioners' funds. The legal obligation governing the use of that money is that the Council must pay particular regard in its distribution to the making of additional provision for the cure of souls in parishes where assistance is most needed.*

1. Do you support the proposed abolition of guaranteed annuities and other statutory grants (c. £4.8 million p.a.) so that the money released can in future be distributed as parish ministry support on a selective basis?
2. If so, do you support that change taking place once the necessary legislation has been approved, i.e. in 2005 at the earliest?
3. If not, when would you favour the change taking place?
4. Do you have any comments on the current proposal to phase out the arrangements for distributing transferred cost allocations (c. £2 million p.a.) on a 'neutral' basis, in favour of distributing them as selective stipend support?
5. Do you support the proposition that costs relating to the operation of the retirement housing scheme for the clergy (c. £2.4 million p.a.) should be added to the central apportionment so that the money so released can be distributed as parish ministry support on a selective basis?
6. If so, from what point would you like to see this change take place (subject to phasing)?
7. Do you support the principle of the phasing arrangements which would govern the above changes, i.e. that the maximum adverse effect for any dioceses in any one year, as a direct result of the above changes taken as a whole, should be +2 per cent of its parish share (i.e. the same basis as that being used to phase in the results of the allocations and apportionment review)?
8. If not, what percentage would you prefer?
9. Are there any other areas of work currently funded by the Commissioners, the cost of which you think should be transferred to dioceses to release further funds for selective parish ministry support?

## Clergy stipends

1. Do you support the new definition of the stipend below and the principles that underlie it?

**The stipend is part of the remuneration package which is paid for the exercise of office. It reflects the level of responsibility held. This package acknowledges the dual demands in Scripture of generosity and sacrifice on both those who receive the stipend and those who raise the necessary funds.**

- The principle of differentials for responsibility is allowed for, but, where paid, they should be modest.

*Clergy stipends, pensions and other financial issues*

- Subsistence levels of pay are not allowed for.
  - Pay should be related to posts, not households or personal circumstances.
  - Circumstantial maintenance payments (e.g. child allowances) are not allowed for.
  - Clergy remuneration should represent a primary call on the budgets of the church, national, diocesan and parochial.
  - The reasonable expectation of the clergy that any comparisons made are with professional secular groups does not in itself imply that comparable remuneration should be paid.
2. Do you agree that £20,000 is a reasonable aspiration for the stipend for clergy of incumbent status?
3. Do you agree that 80% of a head teacher's salary (less a deduction to take account of the benefits of provided housing) represents a reasonable basis for determining the right level of the clergy stipend for incumbents?
4. Do you support the proposed structure of (i) a ceiling above which no more than 20% of clergy in a diocese should be paid and (ii) a maximum level above which no clergy in a diocese (other than bishops, archdeacons and deans/provosts) should be paid?
5. Assuming that the stipend for clergy of incumbent status is set at 1.1 of the National Minimum Stipend, where do you think (in multiples of the National Minimum Stipend) that the ceilings in 4 (i) and 4 (ii) should be set?
6. Should a new stipend system be adjusted for regional variations in the cost of living, or should dioceses make their own adjustments within the suggested range?
7. Do you agree that steps should be taken as soon as possible to set up a scheme to enable clergy to purchase retirement housing earlier in their ministry?
8. Do you consider that the order of priorities set out in the hierarchy of aspirations below is correct?
- (i) to bring the basic level of stipend for assistant staff (curates and lay workers) up to the current National Minimum Stipend for Incumbents – **cost: an additional £200,000.**
- (ii) To increase the National Stipend Benchmark from its current level of 1.05 of NMS (£16,910) to 1.1 of NMS (£17,640) – **cost: an additional £5m.** (note: this increase does not produce any increase in the level of pension contributions, since there is no increase in the National Minimum Stipend on which the pension is based)
- (iii) To pay all incumbents a stipend of at least £20,000 – **cost: an additional £23.3m, on the stipends bill if (i) and (ii) have already been implemented, plus a further £14- 14.5m in pension costs for the Church, if the current pension arrangements are retained;** (Note: the £14-£14.5m in additional pensions costs is made up of £7- 7.5m p.a. in respect of pensionable service from 1998 onwards, plus a further reduction in the Commissioners' allocations of £7m p.a. to cover the effect of past service.)
- (iv) Bringing a new stipend system, as suggested at question 4, with maximum stipends provided as at question 5.

9. When do you consider that your diocese might be able to implement  
aspiration (i) \_\_\_\_\_  
aspiration (ii) \_\_\_\_\_  
aspiration (iii) \_\_\_\_\_
10. Would you agree that dioceses should not proceed with implementing any of the aspirations until the completion of the consultation process and a recommendation from the Archbishops' Council as Central Stipends Authority?

### Clergy pensions

1. Would a defined benefit, a money purchase or a hybrid arrangement be the most appropriate form of pension scheme?
2. If the Church decides to remain with a defined benefit arrangement, what variations, if any, to the current benefits should be made?
3. What overall contribution rate would be appropriate and sustainable if a money purchase/hybrid scheme were favoured?
4. If a hybrid scheme were adopted, what approximate balance between the defined benefit and money purchase elements would be appropriate?
5. Should member contributions be considered and if so, at what level?
6. Should the clergy cease to be contracted-out, if on more detailed investigation this would generate an overall financial benefit to the Church; and if so, should the cost to clergy (in the form of extra national insurance) be neutralized or not?

### Final question

Do you have any general comments about the relationship between stipends and pensions within the remuneration package?

*Part One*

# The financial overview

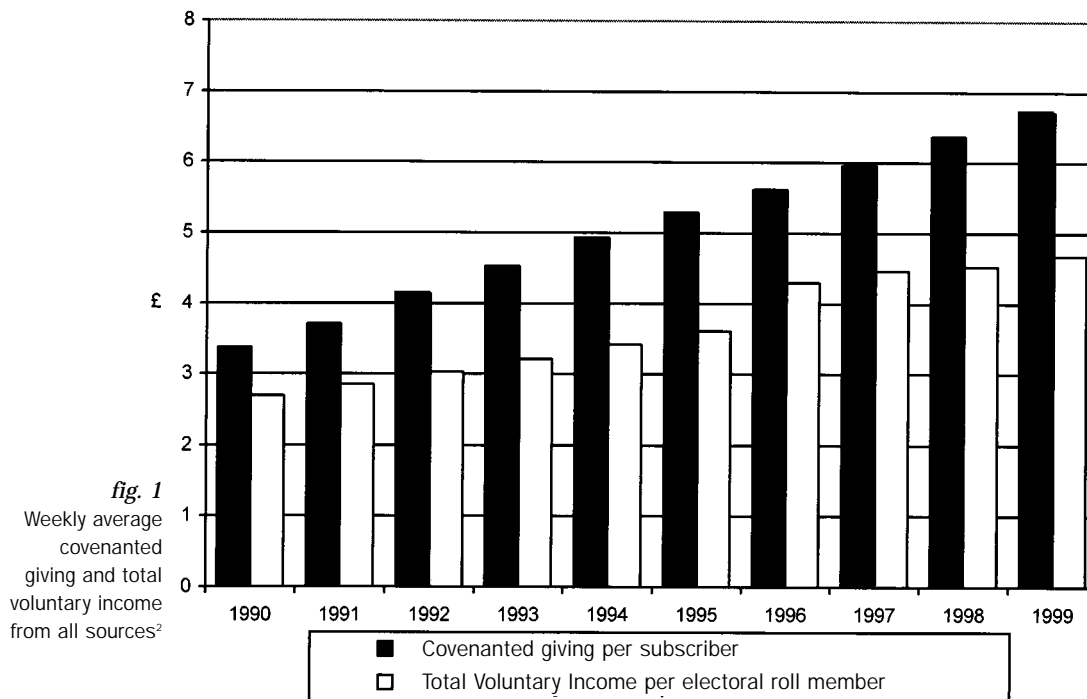
## Introduction

1. This report has been prepared by the Financial Issues Working Group, which was set up in May 2001 following publication of the actuarial valuation reports into the assets and liabilities of (a) the funded clergy pension scheme administered by the Church of England Pensions Board and (b) the funds managed by the Church Commissioners.
2. The Group, whose membership is set out in Appendix 1, has operated within the following terms of reference:

In the light of the substantial proposed increase in the contribution rate in respect of clergy pensions (i) to review the timing and impact on dioceses of current and forthcoming financial exercises and (ii) as part of this to consider and evaluate what changes to the current clergy pension arrangements would be worthy of further consideration. The Group is asked to consult with dioceses and other interested parties reporting via the Deployment, Remuneration and Conditions of Service Committee (DRACSC) and the Archbishops' Council to General Synod in November 2001.
3. The Group has produced a paper, *Clergy Pensions*, setting out in detail alternative arrangements that could be considered for the future structure of clergy pensions. In parallel with this a group, set up by the Archbishops' Council in April 1999, has been completing a review of clergy stipends. Its report, *Generosity and Sacrifice*, was published in September and is to be presented to General Synod in November 2001. It is important to consider this paper and the two reports referred to above as a whole and against the context of the overall financial situation of the Church.

## Background

4. Over the last decade we have seen a very significant shift in responsibility for funding the ministry of the Church. As a result of their investment and over-distribution difficulties in the late 1980s/early 1990s, the Church Commissioners needed to bring their liabilities back into balance with their assets. As well as re-balancing their investments (principally to reduce their exposure to property and increase the funds invested in stocks and shares), they embarked upon a programme of cuts in expenditure designed to reduce their commitments to a level which they could afford and, apart from pensions, sustain into the future. As a consequence of this their total support for stipends was reduced from £66 million p.a. in 1991 to £20 million p.a. in 1997. It has been maintained at about that level since then.
5. In parallel with this, steps were being taken to cap their liability for clergy pensions, which had grown rapidly. Actuarial estimates in the early 1990s showed that this commitment was in danger of absorbing all the money they had available for distribution. The creation in 1997 of the Funded Scheme for clergy pensions had the effect of limiting their commitment to benefits earned from pensionable service up to 31 December 1997. The new scheme, funded mainly by contributions from dioceses, raised from their parishes, is responsible for all pensions earned from 1 January 1998 and at present requires contributions from the Church of approximately £35million p.a. Under arrangements agreed at the outset of the scheme, dioceses have been receiving specific assistance from the Commissioners (totalling £65 million over the period 1998–2002), on a tapering basis, to enable them to take on this additional cost by the end of 2002.
6. The consequence of the changes outlined above has been to transfer ministry costs in excess of **£80 million** p.a. from the centre to the parishes/dioceses. Parishes have responded to this challenge, and giving by deed of covenant doubled in cash terms between 1990 and 1999 from **£3.38** per member per week to **£6.71**. In real terms (i.e. taking inflation into account) this is still an increase of 52 per cent.<sup>1</sup> Over the same period Total Voluntary Income from all sources increased from £2.69 per member per week to £4.67. It should be noted, however, that the above figures represent around 3 per cent of take-home pay compared with the General Synod target of 5 per cent. Clearly, if the latter target could be achieved, the overall financial position of the Church would look very different. The recent report *First to the Lord* recommended aspiration of this target as a millennium challenge to the Church.



7. By way of additional information Appendix 2 shows by diocese, figures for:
- Church membership
  - Average incomes (as used in the Allocations and Apportionment Review)
  - Percentage giving levels
8. All pensions schemes are required by law to carry out a review of their assets and liabilities at least every three years and the first such valuation of the funded clergy pensions scheme was carried out at the end of 2000. This revealed that insufficient income was coming into the fund from diocesan contributions and returns on investments to meet future pension obligations for the following reasons:
- Clergy, like the general population, are living longer than hitherto and the improvement in longevity has been greater than was allowed for at the start of the scheme.
  - Future investment returns are expected to be lower.
  - Stipends, to which pensions are currently linked, have been rising faster than dioceses had expected would prove possible and some catching up is required because the rate agreed by dioceses at the start of the scheme was lower than that initially suggested by the Pensions Board's actuaries.
9. The consequence of this review is a need to increase the contribution paid into the scheme from 21.9 per cent of the pensionable stipend (c. £3,500 per clergy person per year) to 29.1 per cent<sup>3</sup> (£4,668 per year) with effect from 1 April 2002. This would add a further **£12 million** p.a. to the overall cost of the scheme and mean that the total costs taken on by the parishes since 1991 would exceed **£90 million** p.a.
10. Recent projections of total church income and expenditure have indicated an increasing number of dioceses having to call on reserves to meet budget deficits. Whilst the figures suggest a better financial position in parishes, it is apparent that the extra costs outlined above represent a further significant financial challenge for the Church. It was in the light of this development that the Archbishops' Council set up the Financial Issues Working Group to work through the issues outlined at the beginning of this report in conjunction with colleagues from the dioceses and the other National Church Institutions.

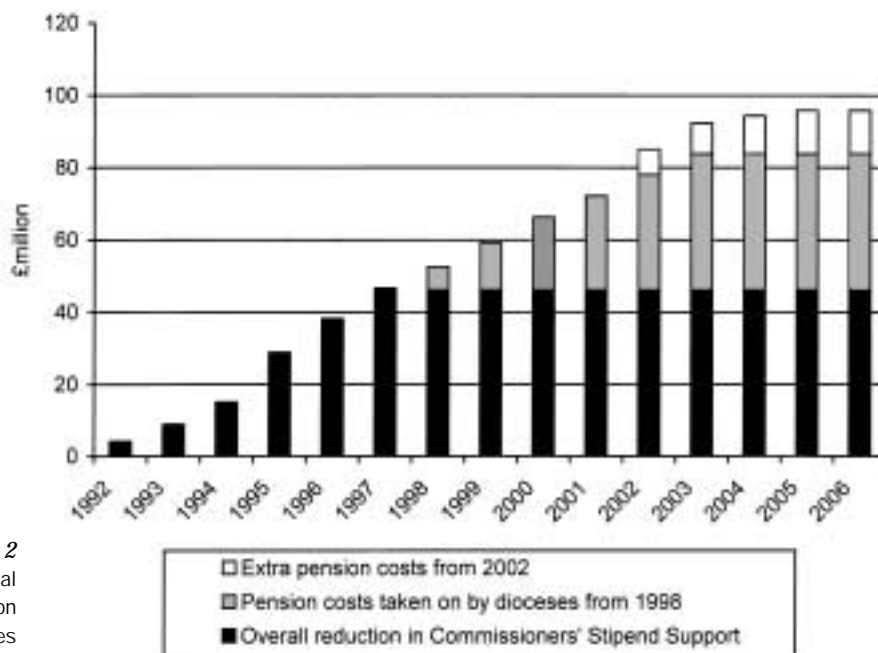


fig. 2  
Additional costs taken on by parishes

11. In the meantime, the Church Commissioners agreed to make an additional £10 million available to dioceses over the period 2002–4 in the form of further transitional support to help offset the extra cost of pension contributions. This is being made available to dioceses on a selective basis but all dioceses have been offered some help in 2002 when the increase outlined above is due to take effect. Under the Pensions Measure 1997, the Commissioners cannot give such assistance beyond 2004.

## The issues

### Clergy numbers and deployment

12. At the present time, **45 per cent** of total church expenditure goes in meeting the stipend, pension and housing costs of the stipendiary ministry, so future trends in clergy numbers are a crucial factor in planning the Church's finances for the future. As at 31 December 2000,<sup>4</sup> there were 9,490 full-time stipendiary clergy in diocesan ministry (including dignitaries) serving just over 13,000 parishes and 16,000 churches. Although the number being recommended for ordination training has been rising in recent years, this increase is insufficient to offset the overall decline in the number of stipendiary clergy. On the basis of current assumptions, the total number is expected to decline to 9,140 by 2005.

fig. 3  
Full-time equivalent of stipendiary clergy in diocesan ministry: Projections 2001–5

Year (Dec)	Men	Women	Total
2001	8150	1260	9410
2002	7990	1340	9330
2003	7850	1410	9260
2004	7720	1470	9190
2005	7610	1530	9140

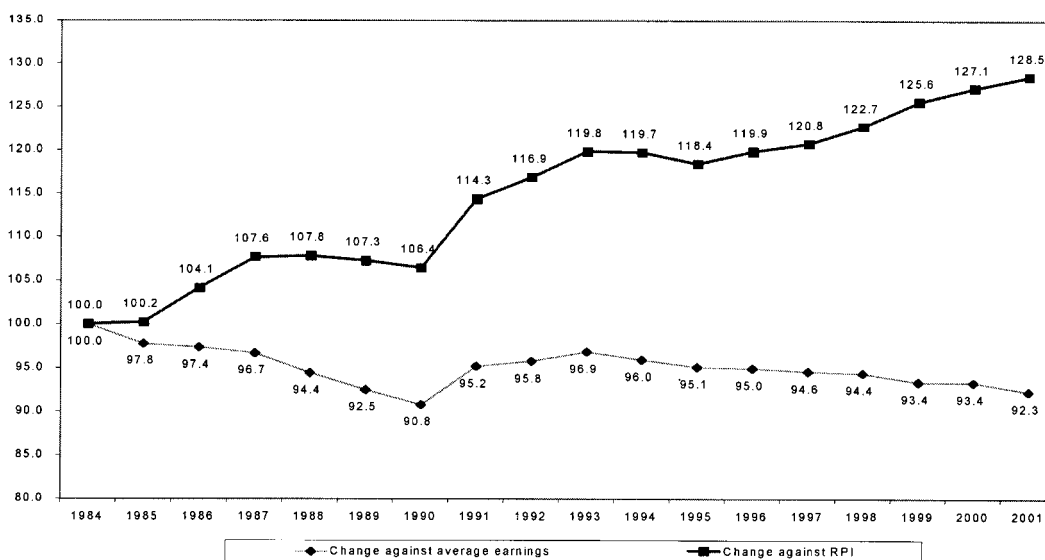
In each case, the figures above have been rounded to the nearest 10

13. The last review of diocesan ministry strategies carried out by the Advisory Board of Ministry (now the Ministry Division of the Archbishops' Council) in 1997<sup>5</sup> arrived at the following conclusions:
- The Church of England is emphatically not retreating from its commitment to offer ministry to the whole community. Dioceses are addressing a diversity of contexts in very different ways, but none of their approaches remotely suggests a shift towards congregationalism.
  - There does seem to be a broad consensus about the theological approach to be followed in thinking about ministry.
  - There is a massive emphasis on 'teams'. However, that word means very different things in different places.
  - There is a strong emphasis on the changing role of the stipendiary clergy.
  - A striking conclusion is that nearly all the [diocesan] plans which refer to clergy numbers accept the 'Forecast Sheffield' allocations as a basis for planning.
  - There is a trend towards larger structural units often through the clustering of parishes. In some dioceses, deaneries are becoming more powerful in pastoral reorganization.
  - As well as the issue of [the balance between] stipendiary/non-stipendiary [ministry] there is an emerging question about deployability. Dioceses are seeking to make at least some non-stipendiary ministers and readers more deployable, in contrast to local ministers, retired clergy and even some stipendiary clergy.
14. There have been a number of significant financial developments since this review was published. How have these affected diocesan plans and what should be the Church's deployment strategy for the future?

### Stipends

15. Stipend costs represent the single largest element of church expenditure (amounting to **£175 million** in 2000/01 including national insurance) so future payment trends will be a key feature of the overall financial picture. Since 1984, the National Average Stipend for incumbent-status clergy has risen from £6,838 p.a. to £17,030, an increase of **149 per cent**. This compared with increases in price inflation over the same period of **94 per cent** and average earnings of **170 per cent**.

fig. 4  
Change in value of national average stipend of incumbent status clergy against RPI and average earnings from 1984



16. It will be seen, therefore, that stipend increases have comfortably exceeded price inflation but have not matched fully the increase in average earnings. Annual increases, over the second half of the period covered above, have been significantly lower than in the first half, a reflection of a period of lower inflation and greater financial constraints within overall Church finance.
17. Issues relating to the adequacy of the stipend have arisen from time to time over the period but came to a head in 1998 when the diocese of Guildford (following its own internal adequacy review) decided to increase its stipends by £1,500 p.a. over a five-year period. This led to the call for a national review of stipends levels, which commenced in 1999. The Review Group's comprehensive and thought-provoking report, *Generosity and Sacrifice*, deserves and must receive careful consideration in its own right, whilst also needing to be set in the context of the overall situation we face.
18. The report makes a number of recommendations (in the form of a hierarchy of aspirations) but the key ones, from a financial viewpoint, can be summarized as follows:

Aspiration 1

All assistant clergy (including licensed lay workers) should be paid at least the National Minimum Stipend for incumbents (**£16,040** in 2001/2). The cost of doing this would be just under **£0.2 million** for the Church as a whole on the basis of the 2001/2 figures but the costs would vary by diocese depending on how close they already are to that objective;

Aspiration 2

Increase the national stipend benchmark for incumbents from 1.05 to 1.1 of the National Minimum Stipend. This is the equivalent of a figure of **£17,640** p.a. (a £734 p.a. increase) on the basis of 2001/2 figures. The cost to the whole Church achieving this objective would be **£5 million** but again would vary by diocese;

Aspiration 3

Incumbent status clergy should be paid against an external benchmark based on 80 per cent of the starting salary paid to a headteacher of a large primary school. This would indicate a stipend (after allowing for the value of housing) of around **£20,000** p.a., some £3,090 (18 per cent) more than the current benchmark of **£16,910** p.a. The cost of achieving this aspiration would be up to **£43 million** (if fed directly through into pensions) for the whole Church but would again vary by diocese;

Aspiration 4

A revised stipends structure with greater flexibility within it for dioceses to reflect local factors (see Chapter 5 of *Generosity and Sacrifice*).

19. Whether and how quickly the Church feels it can accept and respond to these recommendations will become evident as the consultation process on the report unfolds, culminating in a debate probably in General Synod in November 2002. It is inevitable that dioceses, in responding, will want to reflect on their own financial situation and the degree to which they feel their parishes can respond to the need for additional giving, which implementing the recommendations in the report would represent. In making that judgement, they will also want to assess the impact of the other issues covered in this report. There is, of course, considerable interdependence between stipends and pensions. As the number of stipendiary clergy declines, so that particular element of the overall stipend bill will fall in relative terms. However, increases in stipends will also lead to increased cost of pension provision. It is clearly important for the Church to reflect upon the balance between stipend levels (current pay) and pension benefits (deferred pay) as well as the degree to which mutual support can operate to ensure a reasonable equality of treatment of clergy across dioceses.

Pensions

20. The terms of reference of the Stipends Review Group covered all aspects of clergy remuneration, not just stipends. The Group had been in the process of considering possible changes to the clergy pension scheme which had regard to its proposals for stipends when the result of the actuarial review became known. The Group decided, therefore, that further work would need to be done on the pension element of the remuneration package in the light of the contribution rate needed to meet the cost of the current basis of retirement benefits.

21. The companion paper on pensions sets out the results of the work we have done subsequently with the help of the actuary (Lane, Clark & Peacock) to examine the current benefits structure and to evaluate possible options for change. One of the key issues that will underpin this debate will be where the balance of financial risk should lie. Should it continue to rest with the 'employer' (essentially the parishes/dioceses) under a *defined benefit* arrangement – the type of scheme currently in place? Should it, alternatively, rest with the 'employee' (the clergy) by switching to a *defined contribution (money purchase)* arrangement? Should it be shared in an appropriate way via a hybrid arrangement containing elements of both? Could the scheme allow the Church to commit itself to provide at least a set level of contributions but to retain the ability to increase those contributions if the benefits that the actuaries advise they will secure are deemed to be too low?
22. If it is felt that the current defined benefit scheme should be retained should it be modified in some way? All these issues (and no doubt many more) will need to be thoroughly discussed and carefully considered in the months ahead.

## National/financial support for the ministry

### Overview

23. The Church Commissioners remain responsible for all pensions earned from service up to 31 December 1997, and this still represents their largest single expenditure commitment, amounting to over **£90 million** p.a.. This obligation will continue to dominate their expenditure patterns for many years to come. They also pay the stipends and pension contributions of all bishops, deans and provosts, and two residentiary canons at each cathedral, as well as providing other grants to cathedrals towards other canonical and lay salaries. Their main support for parochial clergy stipends comes in the form of selective stipend allocations to dioceses amounting to around £15 million p.a. and Guaranteed Annuities (and other statutory grants) of just under £5 million p.a. paid direct to the clergy concerned. This total of **£20 million** p.a. represents the 'floor' of stipend support, which they undertook to provide when the restructuring of their expenditure commitments took place. It is nonetheless subject to reassessment when they carry out their own actuarial review every three years and to annual confirmation, taking actuarial advice, in the intervening years.
24. The Commissioners' latest actuarial review, also carried out at the end of 2000, showed that (following their excellent investment performance in recent years) the Commissioners can afford the £20 million p.a. 'floor' of stipend support over the period 2002–4. In addition, the Commissioners can also provide a one-off sum of £10 million for parish ministry support over this period. Their actuaries have advised that 'the sums which the Commissioners actually are able to distribute by way of sustainable distributions are extremely sensitive to the economic environment that emerges over time'. Therefore, it has been agreed that this additional money will be allocated in 'ways that do not lock the Commissioners into permanent commitments' that may have to be reduced or withdrawn at a future actuarial assessment of their fund.
25. The maintenance of the stipendiary ministry has been the key factor in promoting the Church's mission in every corner of England. In support of this mission through maintenance, complementary and support work has been initiated and developed (e.g. youth work) by dioceses and parishes. This work has been funded with minimal support from the National Church Institutions. Although at present all the Commissioners' parish ministry support is distributed as stipend support, this is only a relatively recent policy in historical terms. Throughout their and their predecessor's history, their funds have already been used to support the strategic needs of the Church in a variety of ways.
26. These reflections have led the National Church Institutions to suggest that there is merit in distributing the one-off sum of around £10 million available for parish ministry support in 2002–4 in ways complementary to the support of clergy stipends, which would remain the core of the Commissioners' parish ministry support. This money would be distributed under the direction of dioceses and, rather than restrict dioceses to using the money for stipend support, they would also be allowed to spend it on funding parish mission initiatives to develop new Church ministry where they believe it is most required. The Council has asked, 'could the Church Commissioners' investments be used to support the sort of risky initiatives appropriate to a pilgrim Church?' and has agreed that some new thinking is needed about shifting the Church's resources to where they are needed most. In discussing the review of the current allocation of the Commissioners' parish ministry support, it suggested that 'it was important to move to an understanding of supporting mission where such support was needed'.

### Selective stipend support

27. At its July 2001 sessions, General Synod received and discussed the report<sup>6</sup> produced by a review group (chaired by Stewart Darlow, Chairman of the Chester Diocesan Board of Finance) into the formulae currently used to distribute selective stipend support and to apportion between dioceses the cost of the national Church budget. The review had been set up by the Archbishops' Council, at the request of the dioceses, to examine the suitability of the current arrangements and the robustness of the data used. Publication of the Review Group's final report followed two years of discussion and consultation throughout the Church during which time the proposals were modified in a number of ways.
28. Synod was invited, on the basis of a harmonized calculation of underlying financial need ('diocesan total resource'), to *approve* a new formula for the basis of apportionment and to *comment* on a proposed new formula for stipend support distribution the basis of which must, under the National Institutions Measure, be approved by the Archbishops' Council.
29. Synod duly approved the new apportionment formula and this will be applied to the 2002 budget. The debate on the proposed new allocation formula attracted a wider range of views, but two amendments were defeated by a substantial majority. The effect of this was an endorsement of Option 1 in the Group's report and a rejection of a second option which would have resulted in part of the total sum available (£2.5 million p.a.) being distributed purely on the basis of deprivation (as measured by the DETR index).
30. At its meeting on 25 September 2001, the Archbishops' Council approved the adoption of Option 1 and dioceses have been notified accordingly. **Appendix 3** sets out the 'final' allocations to each diocese as a result of implementing the changed formula along with the actual amounts to be paid in 2002 (taking account of the phasing in arrangements agreed<sup>7</sup>). It should be noted however that the allocations payable will need to be reassessed each year as the base data is updated.

### Guaranteed annuities and other statutory grants

31. As indicated above, these grants, primarily resulting from the Endowments and Glebe Measure 1976, are paid directly to the clergy by the Commissioners via the central clergy payroll system. The bulk of the sum concerned (£4.8 million p.a.) is paid as guaranteed annuities of around £1,000 p.a. per parish and as part of (not in addition to) the basic stipend. The current arrangements are therefore totally non-selective and dioceses benefit to varying degrees from these payments.
32. Discussions have previously taken place with dioceses as to whether this was the most appropriate way to distribute part of the stipend support available at national level, and the general (but not unanimous) view was that legislation should be sought to change the arrangements once the initial pension transition period had come to an end, i.e. after 2002. To this end, the Church Commissioners intend to promote legislation to abolish guaranteed annuities and the other statutory grants, so that the money so released can be distributed on a more selective basis.
33. Due to the time it will take to progress the necessary legislation through all its synodical and parliamentary stages, it is possible that this abolition (if approved) will not take effect before 2005. *In addition, no decisions have yet been reached on the distribution of any funds so released.* However, if the money freed up was to be distributed in accordance with the approved selective allocation arrangements and on the basis of Option 1 of the Darlow Report, this would be as per **Appendix 4**. It will be noted that the effect is to take money from the better resourced dioceses and recycle it to those at the needier end of the spectrum, thus providing a further example of mutual support between dioceses. It would clearly be necessary to phase in any new arrangements and a suggested basis for doing this is covered in paragraph 45 below.

### Additional allocations in respect of transferred functions

34. One of the features of the Turnbull Report<sup>8</sup>, which led to the creation of the Archbishops' Council in 1999, was the recommendation that certain administrative functions should be transferred to the new Council from the Church Commissioners. The rationale behind this was to improve the organizational arrangements for certain pieces of work and to bring together under the Council areas of work where more policy coherence was necessary. Over the period 1999–2000, a number of functions (with a total cost of **£1.8 million** p.a.) were duly transferred, primarily those relating to the provision of common services to all the national Church bodies, to the distribution of parish ministry support and to clergy remuneration policy.

35. The Turnbull Report also pointed out that this transfer of functions, whilst it led to an increase in central apportionment, would result in savings in administrative costs at the Commissioners, which would in turn increase their capacity to offer parish ministry support. It was agreed with dioceses, however, that to increase central costs at precisely the same time as they were coping with contributions to the new clergy pension scheme would not be manageable. As a consequence, arrangements were put in place for the extra money available from the Commissioners to be distributed as non-selective stipend support to dioceses on the same basis as the extra costs were being charged through the central apportionment, i.e. the arrangement was effectively cost-neutral to the dioceses.
36. It was agreed that the arrangements described above would remain in place for the duration of the pensions transition period, i.e. up to the end of 2002. However, the assumption hitherto has been that beyond that point the 'neutrality arrangement' would be brought to an end on a suitably phased basis and the £1.8 million p.a. distributed to the most needy dioceses as *selective* stipend support.
37. **Appendix 4**, therefore, also shows how these revised arrangements would operate if distribution was on the basis of the Darlow formula (Option 1). Once again we see the principle of mutual support in operation and the money being recycled to the most needy dioceses.

#### Revenue costs relating to retirement provisions

38. The 1997 Pensions Measure, which empowered the Pensions Board to re-establish a separate clergy pension fund, also revised the provisions for dealing with the Board's administrative costs. Instead of being met by the Commissioners, these are now the responsibility of the Board. The Commissioners are, however, enabled to contribute towards those expenses which relate to past service pensions and other matters in which they have a financial interest. All the Board's costs have thus been charged to the relevant funds since 1998, apart from those in respect of clergy pensions and retirement housing. The Commissioners agreed to cover these two items in full until the end of the original transitional period for clergy pension contributions, i.e. until 31 December 2002.
39. It has already been generally agreed that the costs of administering the whole clergy pension scheme will be met from the pension fund from 1 January 2003 by an addition to the contribution rate of 0.4 per cent of pensionable stipends. The reduction in the Commissioners' expenditure – £0.7 million a year in round terms – will be added to the sum available for selective stipend support.
40. The costs of administering the retirement housing scheme – **£0.8 million** a year in round terms – cannot legally be channelled through the pension fund. However, if it were met by dioceses, through use of the apportionment formula, this reduction in the Commissioners' expenditure could also be available for selective stipend support.
41. There are two financial aspects to the retirement housing provisions: (a) capital and (b) revenue. The capital is provided partly by the Pensions Board's charitable funds and, more substantially since the current housing scheme was introduced in 1983, through loans to the Board from the Commissioners. The loans are made on a 'value-linked' basis and form part of the Commissioners' investment portfolio. The Board makes value-linked loans to enable retiring clergy who have some capital to purchase accommodation. Those with inadequate resources to purchase a property with the assistance of a mortgage may occupy under licence ('rent') a property owned by the Board.
42. Rents are assessed with the basic objective of meeting the Board's underlying costs – interest on the capital used to purchase properties, maintenance, buildings insurance, water rates. There are clear parameters laying down the size of property that may be available. It was recognized that even so, and although the pension formula includes an allowance for retirement housing costs, some participants would find the outlay an onerous proportion of their retirement income. It was agreed therefore that there should generally be an upper limit on individual rents of 25 per cent of total gross income from all sources (including that received by a spouse).
43. The Board sets the total rental income received against its total outlay in respect of the properties – interest on capital borrowings, maintenance costs, etc. Although it does not receive interest on its own capital, the outlay exceeds the rental income as a result of the upper limit on rents. In addition, the Board meets a proportion of the purchase and sale costs in respect of mortgaged properties. The total revenue shortfall – currently around **£1.6 million** a year – is met by the Commissioners. If this too were instead

met by dioceses, using the apportionment formula, the further reduction in the Commissioners' expenditure could also be available for additional selective stipend support.

44. To summarize, in addition to the £0.7 million transferred from the Commissioners to the pension scheme contribution rate, a further **£2.4 million** could be switched from the Commissioners to diocesan apportionment with a commensurate addition to the sum available for selective stipend support. **Appendix 5** illustrates how the sum involved above would be charged to dioceses through the central apportionment and how the resulting increase would be distributed *if* it were to be added to the selective allocation pot (on the basis of the Darlow formula).

#### Phasing arrangements

45. **Appendices 4 and 5** show the overall effect of switching the money currently tied up in guaranteed annuities, transferred cost allocations and pension board costs onto a selective basis of distribution. Taken together, they amount to a potential increase of **£8.9 million** (or 60 per cent) in the amount of support distributed selectively. This would be the most tangible illustration of the principle of mutual support in action that is available to us at the present time. However, if that policy is agreed, dioceses losing money would clearly need time to adjust. One way of achieving this would be to blend this switch into the proposed arrangements for introducing the changes emerging out of the Darlow Review. This provides that no diocese should incur an increase in its parish share of more than 2 per cent p.a. *as a direct result of the changes being made*. The effect of this would be to create a further transition period starting in 2003, the length of which would depend on each diocese's individual position and the extent to which they are affected. For the reasons given in paragraph 51 we believe it would be premature to attempt at this point to illustrate how this phasing would impact in cash terms. The timing of any further phasing arrangements will almost certainly depend on the outcome of the discussions on the pensions benefit arrangements and how the Church wishes to respond to the aspirations set out in the Stipends Review Group report.
46. It should be noted that the figures in **Appendices 4 and 5 are only illustrations designed to show the possible effect of changing the distribution arrangements for the sums concerned**. The way the new allocations formula works, the more money that is available for distribution, the larger the number of dioceses that benefit. **Appendix 4**, for example, assumes that the selective 'pot' is progressively increased by the addition of transferred cost allocations (£1.8 million) and guaranteed annuities (£4.8 million). **Appendix 5** shows the distribution of the extra £2.4 million that would be freed up by transferring the costs to the central apportionment on two bases. The first option assumes this is in addition to the transferred cost allocations, the second that guaranteed annuities are also added to the total sum available for distribution. As indicated above, all allocations will need to be reassessed each year as the base data is updated.

#### Central costs

47. All the National Church Institutions have recognized the additional strain which recent developments have placed on the parishes and dioceses, and are keen to do what they can to help. To this end the Church Commissioners are taking steps to maximize their parish ministry support by holding their administrative expenditure in 2002 at its 2001 budget level and will endeavour to do the same in 2003-4. The Archbishops' Council has also announced its aim to hold the apportionment in respect of its own administration and support expenditure (Vote 2) at its 2001 level over the period 2002-4. A note on the implications of this for the 2002 budget will be presented to the Synod in November 2001. The Pensions Board and Lambeth Palace are also carrying out a thorough review of their own administrative expenditure.

#### Conclusions

48. It will be for General Synod to decide, following wide consultation within the Church and in the light of the recent actuarial review, whether it feels changes to the current clergy pension arrangements are required. That decision will need to strike an appropriate balance between the desirability of maintaining the current level of pension benefits and the ability of the parishes to meet the cost concerned. That will in turn be closely linked to its response to the stipend aspirations outlined in paragraph 18 above and its clergy deployment strategy for the years ahead. Can the Church, at this stage in its financial development, afford the current pensions package *and* meet the aspirations in respect of stipends (which would themselves increase pension costs)? If not, where, within the current remuneration package, should the current priority lie?

49. The ability of many dioceses to respond to the issues raised in these reports will also be influenced by what support they will receive in future from central sources towards their ministry costs. The implementation of the new formulae for allocation and apportionment will leave some dioceses worse off whilst others (where the level of need is currently judged to be greater) will enjoy an increase in support. A further redistribution of resources from the better to the worse off (following the principle of mutual support) would also occur if guaranteed annuity money (paragraphs 31–33), transferred cost allocations (paragraphs 34–37) and pension board costs (paragraphs 38–44) are distributed on a selective basis in the future. Dioceses receiving less assistance as a result of these changes will need to increase parish giving quite significantly (or reduce expenditure) simply to maintain their current position. The position of dioceses receiving more assistance will clearly improve but to what degree will that equip them to meet the challenges ahead?
50. It will be evident that the Church faces a continuing period during which greater emphasis will need to be placed on aspects of its financial affairs. The challenges are significant but ought to be manageable provided a fully integrated approach is adopted and the National Church Institutions work together in full consultation with the dioceses towards agreed common objectives.
51. We have tried in this report to provide a comprehensive account of the financial issues facing the Church in the years ahead. We were also acutely aware that after a decade of significant change in the financing of the Church's ministry, yet further changes lie ahead if the issues outlined in this report are carried through. We realize these will be unwelcome developments for some dioceses and we need to hear their views. The theme of mutual support runs right through many of these issues and it clearly presents a challenge to dioceses at the less needy end of the spectrum to give up their entitlement to various forms of non-selective support in the interests of their more needy colleagues in other dioceses. Their willingness to do this, and the speed at which it can be achieved, will be a key factor in our future deliberations.

## Notes

- 1 Further details of the overall financial situation can be found in the Financial Secretary's report GS Misc 627 published in November 2000.
- 2 Source: *Church Statistics*, GS Misc 641.
- 3 The rate would need to rise again to 29.5 per cent w.e.f. 2003 when the scheme assumes the cost of its own administration hitherto met by the Commissioners. However, this releases an additional £0.7 million p.a. for the Commissioners to provide as extra parish ministry support.
- 4 *Statistics of Licensed Ministers*, 31/12/2000.
- 5 Published in October 1998 as Ministry Paper No. 18.
- 6 GS 1420.
- 7 See paragraph 45.
- 8 *Working as One Body*, Church House Publishing, 1995.

*Part Two*

## Clergy stipends

## Introduction

52. In 1999, the Archbishops' Council set up a group to review clergy stipends in response to concerns that these were not adequate. The membership of the Review Group and the terms of reference for the work are set out in Appendix 6. The full report *Generosity and Sacrifice* (GS 1408) was published in September 2001. For further details of the Review Group's thinking the reader is invited to refer to the main report.

### The Review Group's methodology

53. We believed strongly that our deliberations had to take place within a theological context. We also considered it essential to come to a mind in principle over the nature and the level of remuneration of clergy, before assessing whether our proposals could be afforded.
54. As part of our work, we carried out the following consultations:
- a survey of all stipendiary clergy and licensed lay workers on the central payroll;
  - a consultation document sent to all General Synod members, the dioceses and other interested groups, advertised in the press and available on request to any individual or group;
  - consultation with relevant clergy charities and dioceses concerning charitable payments made to clergy from diocesan and other funds.
55. We were minded to suggest some changes to the pension arrangements for clergy. However, following the outcome of the actuarial review (which recommended an increase in the contribution rate from 21.9 per cent to 29.1 per cent of the pensionable stipend with effect from April 2002) the Archbishops' Council established a Financial Issues Working Group to review pensions policy. The report of that is contained later in this document.

## The remuneration of the clergy

### Setting the scene

56. Historically, the Church has adopted a wide variety of approaches to the remuneration of its ministers. Our knowledge of the precise arrangements for clergy remuneration in the early centuries of the Church is inevitably sketchy.
57. The relationship of Church and State has also affected clergy remuneration. In those areas where Christianity was adopted by the state in some form or other, endowments came to be made for the benefit of Church and clergy. Certainly in England these included private endowments providing for the retention of a priest, perhaps to a family or an estate. All of this contributed to wide variations in clergy income.
58. In 1836, the Ecclesiastical Commissioners began a process of reform, which included the first movements towards the equalization of clerical incomes by removing some endowments in the cases of the worst extremes. It was in this context that the House of Bishops in 1943 set out its definition of stipend:
- The stipends of the clergy have always, we imagine, been rightly regarded not as pay in the sense in which that word is understood in the world of industry today, not as reward for services rendered, so that the more valuable the service in somebody's judgement or the more hours worked, the more should be the pay, but rather as a maintenance allowance to enable the priest to live without undue financial worry, to do his work effectively in the sphere to which he is called and, if married, to maintain his wife and bring up his family in accordance with a standard which might be described as neither poverty nor riches . . . .
59. It is doubtful whether the stipends of the clergy of the Church of England have ever been paid in accordance with this definition. It holds within itself an inherent and unresolved tension between the view of the stipend as a maintenance allowance and the existence of differentials.

### Scriptural principles

60. Scripture does not contain a blueprint for ministry – including matters of remuneration – that can simply be copied in the twenty-first century. Nevertheless, we believe it to be essential to make a thorough examination of what Scripture does say about the remuneration of those who minister on behalf of the whole people of God.
61. Our observations are as follows.
- In principle, the responsibility for providing for the ministry lies with the offerings of the people. The priests and Levites depended on the offerings of the people of God. The offerings of grain and wine were used to support the priests (Numbers 18.2, Deuteronomy 18.4). Certain parts of animals used in sacrifices in the tabernacle were also reserved for the priests (for example, Exodus 29.27-34 and Leviticus 7.6-10). The Israelites gave one-tenth of the produce of their land to God, and one-tenth of this went to the priests and Levites (Numbers 18.28).
  - The 72 disciples sent out by Jesus were dependent on others for their food and drink (Luke 10.1-12). In 1 Corinthians 9.1-23, Paul asserts his right to food and drink and his general right to give up work to work full time for the gospel. In v.14, he says, ‘The Lord has commanded that those who preach the gospel should receive their living from the gospel.’
  - The provision for priests in the Old Testament was to be of the best, choicest elements of the first fruits and tithes (Exodus 23.19). It represented the first call upon the offerings of the people of God.
  - There is no evidence of the material support for the priests being at or near subsistence levels, though there are warnings against opulence and luxury.
  - The wages referred to in many places in the Old and New Testaments clearly refer to payment for work done. Numbers 18.31 uses the term ‘wages’ in relation to payment for the Levites, and Micah 3.11 uses it for the remuneration of priests.
  - There is evidence of mutuality, the rich supporting the poor and also of sacrificial giving by the poor.
  - It is clear that those specially entrusted with preaching and teaching are deemed in the New Testament to be entitled to higher remuneration (1 Timothy 5.17,18). The question is whether this applied to all elders or only some. There may be some justification in seeing this group as most closely represented by stipendiary clergy.

### Theological models of remuneration

62. Ordained ministry arises in essence out of a call from God to the minister, which is affirmed by the Church and which confers distinctive ministerial orders. Thus, in the nature and exercise of this call, ordained ministry is different from any other employment.
63. There is, however, something of a tension between this distinctiveness of the ordained minister and the realities of the professional clergyperson in the twenty-first century. For most clergy, the practice of ministry reflects secular patterns of employment. Thus, a stipend is attached to a post, which can only be exercised through a bishop’s licence (though the minister is viewed as sharing the ministry of the bishop). Clergy are increasingly expected to follow guidelines regarding professional conduct, continuing ministerial education and basic duties and, *in extremis*, a minister can be removed from his or her post by due process. For a few clergy, primarily those in chaplaincies and sector ministries, this process may include contracts of employment, professional assessment and in some cases a scale of salaried payments.
64. We requested and received a number of submissions dealing with the application of theological principles and models to the question of remuneration for the clergy. Much of the evidence and discussion was underpinned by the following theological approaches to clergy remuneration.
- **A counter-cultural model** is the one that reflects most closely a fully worked out application of the stipend as a maintenance allowance. With this model, clergy families would be expected to share the economic hardships of the clergy life. There would be greater equality between ministers, and differentials for additional responsibility would be removed. Differentials on the basis of need, however, would be allowed for, which would lead to clergy of widely differing circumstances and responsibilities receiving significantly different stipends. However, clergy would have little claim to

stipend increases above the retail price index (i.e. price inflation). Any suggestion that there should be any form of benchmarking or comparison with other professions or any claim to comparability even to the average earnings index (i.e. wage inflation) would be nonsense with this model. The key features are sacrifice and subsistence. There are many in the Church who find this model compelling as a Christian lifestyle.

- **A contractual model** recognizes that the Church is not immune from the increasingly individual and market-orientated world in which we live. Under this approach, clergy would be employees with legally binding contracts. Freehold of office would disappear and there would be greater stress on management, standards and assessment of performance, accountability and discipline, although these would be compensated for by a clear salary structure. Differentials between clergy would most likely widen.
- **The status quo**, the current model, is a compromise largely based upon the counter-cultural approach but influenced by the contractual model. The status quo carries with it a number of inherent tensions, which have contributed to the pressure for reform. Thus, differentials are maintained within a model that claims to be a maintenance allowance, but comparisons are made with other professional groups and with average earnings.

65. We believe that there is a fourth way, which might perhaps be described as the **sacrificial model**. Sacrificial because it requires sacrifice on the part of the clergy (who, therefore, would not be claiming the right to be remunerated as other, perhaps comparable, professional groups) and sacrifice also on the part of the whole Church (recognizing the need for a properly remunerated professional ministry). This approach places great emphasis upon the need for professional models of remuneration for Christian ministry and accepts the need for some recognition of responsibility and for generosity in the setting of the level of pay.

A new definition of stipend

66. It is clear to us that the current position is flawed, and that, if the Church were to adopt the principle of the stipend as a maintenance allowance, it would need to do so in its entirety. A maintenance allowance is not compatible with differentials to holders of posts of responsibility. Moreover, we could find no scriptural evidence that supported a system of paying a maintenance or subsistence allowance to ministers. Indeed, our conclusion from the scriptural evidence was rather to the contrary.
67. We also find that a full contractual system of employment relations, with its implications for assessing the value of employees to an organization and possibly performance-related pay, at odds with the nature of the ministerial office. We consider such a system to be unsupported in Scripture where there was considerable emphasis upon sacrifice, calling and service.
68. We believe that it is possible to construct some form of professional remuneration system for the Christian clergy that is consistent with the principles of Scripture and recognizes the reality of pay as compensation or reward for professional services, but does not imply the full acceptance of the secular world of contract. **We recommend the retention of the concept of stipend, but modified in understanding and definition as follows.**

**The stipend is part of the remuneration package which is paid for the exercise of office. It reflects the level of responsibility held. This package acknowledges the dual demands in Scripture of generosity and sacrifice on both those who receive the stipend and those who raise the necessary funds.**

69. **We also recommend the following guidelines for application. Firstly, that the principle adopted is that of 'remuneration for the exercise of office' rather than a 'maintenance allowance'. This has a number of implications.**
- **The principle of differentials for responsibility is allowed for.**
  - **Subsistence levels of pay are not allowed for.**
  - **Pay should be related to posts, not households or personal circumstances.**
  - **Circumstantial maintenance payments (e.g. child allowances) are not allowed for.**

70. **The second guiding principle is that of ‘generosity and sacrifice’. This would suggest the following implications.**
- **Clergy remuneration should represent a primary call on the budgets of the Church, national, diocesan and parochial.**
  - **The reasonable expectation of the clergy that any comparisons made are with professional secular groups does not in itself imply that comparable remuneration should be paid.**
  - **It is right to take housing into account in determining remuneration.**
  - **Differentials, where paid, should be modest.**
71. It must be stated explicitly that this definition is a significant change in the basic methodology underlying our approach as a Church to stipend. It initiates a move in principle away from a ‘maintenance allowance’ to ‘reward for the exercise of office’.

## The level of the stipend

### Current stipend levels

72. The stipends of parochial clergy, archdeacons and licensed lay workers are set by the dioceses in the light of recommendations from the Archbishops’ Council in its role as Central Stipends Authority (CSA). The stipends of dignitaries are set by the Church Commissioners.
73. The main recommendations made by the CSA each year are as follows.
- **A National Minimum Stipend for incumbents (NMS) (£16,040 in 2001)**, which is the level below which no full-time incumbent or clergyperson of incumbent status should be paid unless there are exceptional circumstances. This is also the figure on which pensions are based.
  - **A National Stipend Benchmark (NSB)**, which recommends the level of stipend to be paid to incumbents (**£16,910 in 2001**). This figure is adjusted by the CSA to provide a regional stipend benchmark for each diocese, which indicates the level of stipend that would need to be paid to have the same purchasing power as the national figure, when the effects of regional variations in the cost of living are taken into account.
  - **A national scale for assistant staff** (assistant curates, deacons, deaconesses and licensed lay workers) (**£15,120–£16,290 in 2001**).
  - The CSA also recommends **stipend levels for dignitaries**. See paragraphs 88–93 for further details.
74. We were required by our terms of reference to investigate the financial circumstances of the clergy and commissioned a survey of all clergy and licensed lay workers on the central payroll in the summer of 2000. The survey was confidential and was undertaken by an independent research company. Out of about 10,000 people who received the questionnaire, 6,295 replied. A full analysis of the survey is available in *Generosity and Sacrifice: the results of the clergy survey* (CHP, 2001). Some of the salient findings of the survey were as follows:
- Over two-thirds (68 per cent) of respondents replied that they had no debt. Nevertheless, a group of nearly one-third (32 per cent) is therefore carrying some debt to a varying degree.
  - Of those with debt, two-fifths (41 per cent) said that debts had increased over the past year.
  - For those households where the stipend was the sole source of income, one-third (33 per cent) either struggled to pay their bills or else struggled to provide extra things such as holidays.
  - Nearly two-fifths (38 per cent) of those with capital reserves had had to draw on these during the previous year to meet normal living expenses. With those with dependent children and no or little additional family income, this proportion rose to three-fifths (61 per cent).
75. There were 300 respondents or so to the survey who said that they were part of a clergy couple. There are a small number of clergy couples sharing one stipend. Proper reward for their stipendiary work should be given.

76. **We recommend that full-time or part-time stipendiary clergy should receive an appropriate stipend for the post they occupy irrespective of whether their spouse is also stipendiary.**

#### Consultation document

77. We also issued a consultation document, which attracted nearly 350 replies. Many of these echoed the issues highlighted above, but the other concerns raised included the following:

- the stress on marriages and children resulting from constant vigilance about money;
- children not being able to share in the lifestyle of their peers;
- clergy being unable to afford leisure activities and holidays away from the vicarage, which added significantly to the pressure of the work;
- the costs of furnishing and running large and unmodernized vicarages, and the inadequacy of removal grants;
- the recent changes in rules regarding the repayment of student loans, which mean that, in future, assistant clergy will have to repay loans.

78. It is clear that a significant group of clergy is hard-pressed financially. Assistant staff are particularly likely to be over-represented in this group. **We therefore recommend that the current National Minimum Stipend should apply to all clergy and licensed lay workers holding full-time appointments, and not only incumbent status clergy as at present.**

79. **We also recommend that there should be a corresponding increase in the stipend for incumbents. At present the National Stipend Benchmark is 1.05 of the National Minimum Stipend. We recommend that it should be increased to 1.1 of the National Minimum Stipend.**

#### Comparison with other Churches

80. Ten Church organizations in the United Kingdom provided details of their remuneration practices. The National Stipend Benchmark of £16,910 in 2001/02 lies between stipends of £14,940 (paid to Methodist ministers) and £22,182 (paid to Church of Scotland ministers after five years' service).

#### The value of provided housing

81. In order to be able to compare clergy remuneration with that of other professions, a figure needs to be placed on the value of the provided house. Calculations given in detail in the main report show that the Church would have to provide an absolute minimum of £12,570 in additional stipend to allow an incumbent to provide housing of a standard similar to that currently recommended by the Church Commissioners (a detached four-bedroom house with study and garage).
82. The current calculation of the value to clergy of provided accommodation is based on renting a semi-detached house, and we believe that it should be assessed on the basis of owning a detached house as shown above (£12,570) with a deduction of 25 per cent to reflect the disadvantages for clergy of living in provided accommodation. This gives a figure of £9,428. **We recommend the use of this methodology to the Archbishops' Council as Central Stipends Authority for use in future.**

#### Comparisons with other professions

83. Adding the figure of £9,428 to the National Stipend Benchmark in 2001/02 of £16,910 gives a notional value to the clergy remuneration package in 2001 of £26,338. We used this figure to compare clergy remuneration with other professions, and came to the following conclusions.
- Clergy earn slightly more than the national average non-manual wage.
  - Those with similar levels of responsibility to clergy (e.g. GPs, accountants, civil servants, solicitors) often receive remuneration at a considerably higher level.
84. We consider that the closest approximation to the role of an incumbent is the primary school headteacher who, like parochial clergy, is charged with representing an institution within the community, although the analogy is not appropriate in all respects. Like headteachers, clergy have a leadership role

within their parishes, and are required to respond to the pastoral needs of those in their care. Clergy are required to inspire and challenge their congregations to realize the full potential to which God has called them. They have to ensure that parish resources are properly managed, and are responsible for motivating and enabling groups of volunteers and, in some cases, paid employees.

85. We think, however, that it is important to give sufficient weight to the sacrificial element of the vocation to ordained stipendiary ministry. Nor should it be assumed, simply because the responsibilities of clergy may resemble those of a headteacher, that the level of remuneration should automatically be identical.

86. **We therefore recommend that the appropriate point of comparison for an incumbent's remuneration (that is, stipend and housing) should be approximately 80 per cent of the starting salary of the headteacher of a large primary school.**

87. 80% of starting point of headteacher scale as at September 2000 (£29,176)

Value of clergy housing (£9,428)

Appropriate stipend for incumbents £19,748

**Accordingly, we recommend £20,000 as the appropriate stipend for incumbents.**

## The concept and level of differentials

88. Our terms of reference required us to examine the levels of differentials but not their principle.

89. As part of the survey of all stipendiary clergy and licensed lay workers on the central payroll, one of the questions was 'Do you agree with the principle of differentials?' A total of 53 per cent agreed or strongly agreed; 42 per cent disagreed or strongly disagreed. Similar divisions of opinion were recorded in the General Synod debates on differentials in 1977 and 1996.

90. The survey indicated that there is majority acceptance of the principle of differentials, particularly for bishops, deans and archdeacons, but less support for differentials for rural/area deans, and even less for residentiary canons, or within parochial ministry.

91. **Our conclusion is to accept the arguments of the 1977 Differentials Report, the voting in the 1996 General Synod debate and the evidence of the responses to our survey of stipendiary clergy. We believe that some modest differentials in clergy pay are both theologically reasonable and generally acceptable in the Church of England.**

92. We examined the structure of differentials in the pay of teachers, voluntary sector workers, chaplains to the armed forces, and the staff of the Archbishops' Council. The range of differentials in clergy stipends was found to be modest compared with the ranges paid in those four areas. **We recommend therefore that the basic range of differentials in the Church should not be further diminished.**

93. We recommend the differentials structure should be simplified as shown below.

	2001/02 stipend	Multiple of NMS	Proposed new multiple of NMS
Residentiary Canon	£20,800	1.3	<b>See section on stipends structure</b>
Archdeacon	£25,370	1.58	<b>1.6</b>
Dean/ Suffragan Bishop	£25,530	1.59	<b>1.7</b>
Diocesan Bishop	£31,110	1.94	<b>2.0</b>
Bishop of London	£46,840	2.92	<b>3.0</b>
Archbishop of York	£50,220	3.13	<b>3.25</b>
Archbishop of Canterbury	£57,320	3.57	<b>3.75</b>

## A new stipends system

94. Paragraphs 72–87 have recommended that:
- the National Minimum Stipend for incumbents should become the minimum stipend for all clergy;
  - assistant staff should be paid on a range between the National Minimum Stipend for all clergy and 1.1 of the National Minimum Stipend;
  - there should be an Incumbent's Stipend Guideline (ISG), which should be set at 1.1 of the NMS, rather than its current level of 1.05 of the NMS.
95. **We further recommend that:**
- **all of the CSA's recommendations should be expressed as multiples of the National Minimum Stipend;**
  - **the CSA should offer some guidance about regional adjustments for the Incumbent's Stipend Guideline.**
96. **In order to allow dioceses a degree of flexibility, including differential payments to a limited number of their clergy, we recommend that:**
- **the CSA's recommendations should specify a ceiling below which at least 80 per cent of clergy in the diocese should be paid;**
  - **there should be a further ceiling for all clergy of incumbent status, which would act as a maximum stipend.**
97. We were unable to reach complete agreement about how these ceilings should operate. In particular we were not able to agree on the following issues:
- **How high the ceilings for differentials need to be in relation to the NMS.** Some members were concerned that a high ceiling in relation to the NMS would give so much flexibility to dioceses in setting stipends that little sense of stipend coherence across the Church would remain. Other members argued for maximum flexibility in setting stipends. They also noted that there was already considerable variation across dioceses and a high ceiling would be more likely to persuade dioceses tempted to go outside the national framework to remain within it.
  - **Whether the ceilings for differentials should be adjusted for regional variations in the cost of living, or be absolute figures that should apply across the whole country.** Members who wanted a high ceiling in relation to the NMS argued that there would be no need for formal regional adjustments to stipends because the range would be wide enough to accommodate regional variations in the cost of living between dioceses. Those members who wanted a lower ceiling in relation to the NMS argued that regionalization would go a long way to compensating for the narrower range and had the advantage of ensuring that all dioceses had the same degree of flexibility in setting stipends.
  - **Whether the ceilings for differentials should incorporate residentiary canons.** The aim of members arguing for a higher ceiling was to include the stipends paid to residentiary canons within the range of stipends paid to all clergy of incumbent status. Those who preferred a lower ceiling also said that this was desirable but not, in their view, essential.

98. Models can be constructed using different ceilings for differentials. They can also be adjusted for regional variations in the cost of living. Two of the possible models are provided below.

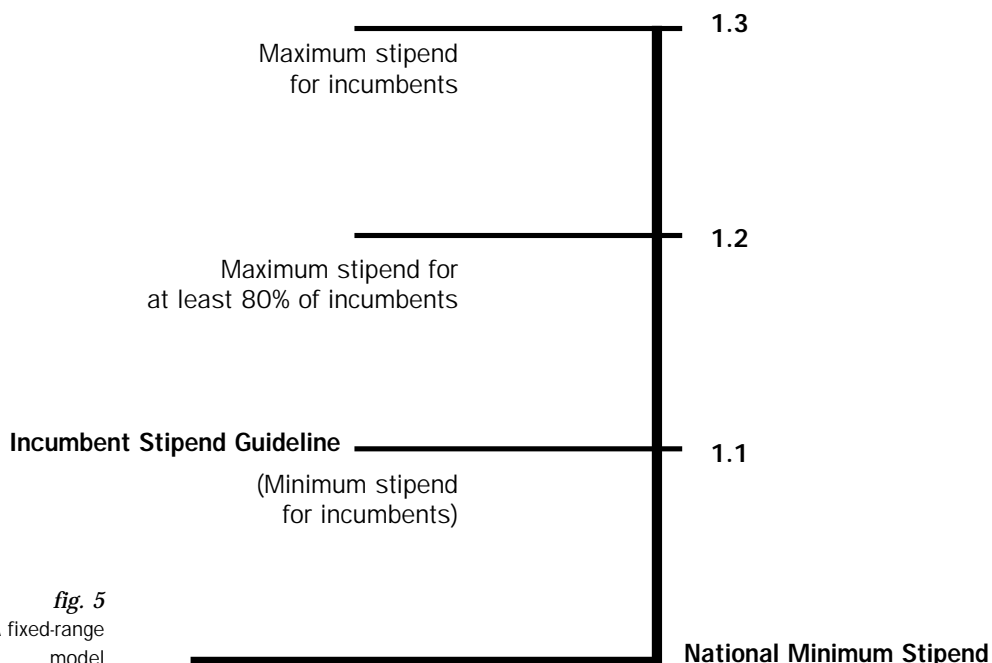


fig. 5  
A fixed-range model

99. This model has high ceilings that give space to dioceses to make their own adjustments for regional variations. Whilst giving a high degree of flexibility to dioceses in setting stipends, this model may run the risk of reducing stipend coherence across the Church.

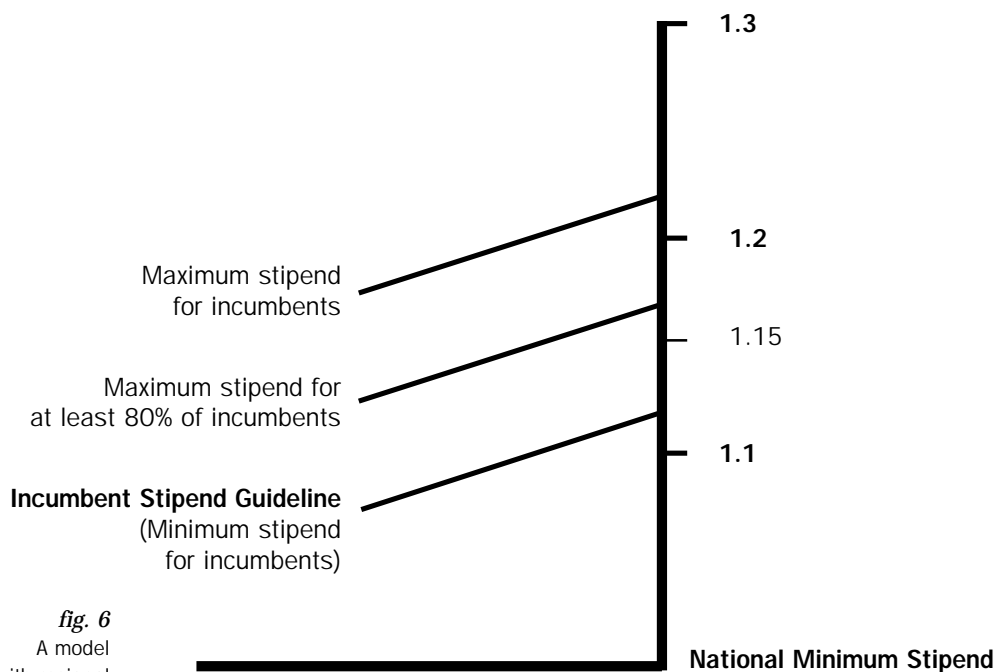


fig. 6  
A model with regional variations

100. In this model, the CSA's recommendations adjust the ceilings in each diocese for regional variations in the cost of living, which allows lower ceilings and more stipend convergence, although at the cost of a more complex system.
101. On the basis of current stipend levels, the ceilings resulting from these models are as follows.

	Fixed Range Model		Model with Regional Variations	
	Relation to NMS	2001/02	Relation to NMS	2001/02
National Minimum Stipend (NMS)	1	£16,040	1	£16,040
National Stipend Benchmark	1.05	£16,910	1.05*	£16,910*
Incumbent's Stipend Guideline	1.1	£17,640	1.1*	£17,640*
Ceiling for at least 80% of clergy in a diocese	1.2	£19,250	1.15*	£18,450*
Maximum stipend (payable to no more than 20% of clergy in a diocese)	1.3	£20,800	1.2*	£19,250*
Residentiary canon	1.3	£20,800	1.3	£20,800

\* adjusted for regional variations in each diocese

102. If the Report's recommended Incumbent's Stipend Guideline of £20,000 were to be implemented, the ceilings for the two models would be as follows.

	Fixed Range Model		Model with Regional Variations	
	Relation to NMS	2001/02	Relation to NMS	2001/02
National Minimum Stipend (NMS)	1	£18,200	1	£18,200
Incumbent's Stipend Guideline	1.1	£20,000	1.1*	£20,000*
Ceiling for at least 80% of clergy in a diocese	1.2	£21,800	1.15*	£20,900*
Maximum stipend (payable to no more than 20% of clergy in a diocese)	1.3	£23,600	1.2*	£21,800*
Residentiary canon	1.3	£23,600	1.3	£23,600

\* adjusted for regional variations

103. **We recommend that the issues of the levels of the ceilings and the regionalization of incumbents' stipends are taken forward for further discussion within the Church in the hope of achieving a consensus on a national stipends structure.**

## The process of setting stipends

### The role of the Central Stipends Authority

104. Clergy stipends are set by dioceses and the Church Commissioners in the light of recommendations made by the Central Stipends Authority (CSA), which was set up in 1972, when the Church Commissioners were appointed as CSA. The Commissioners' responsibilities and powers as CSA were transferred to the Archbishops' Council by the Central Stipends Authority Regulation 1998.
105. The main principles behind the CSA's recommendations are that stipends should be:
- adequate** for clergy to discharge their duties without undue financial anxiety;
  - flexible** enough to allow the Church to pay its clergy where they can best be deployed;
  - equitable**, with stipend levels being broadly convergent and not acting as an impediment to clergy mobility.
106. The Recommendations of the Central Stipends Authority for 2001 are shown at paragraphs 72–87 (incumbents and assistant staff) and paragraphs 88–93 (dignitaries).

### Diocesan flexibility

107. The current system allows dioceses a degree of flexibility in setting stipends. **We believe that this flexibility is important, and recommend that dioceses should be free to decide which clergy (if any) might receive a higher level of stipend, and that the CSA should not offer guidance on the application of differentials within a diocese.**
108. We still consider, however, that it is important to maintain a nationally coherent system. **We therefore recommend that the CSA should continue to make national recommendations, and carry out its functions of liaising with dioceses and the Church Commissioners and sharing information.**

### Diocesan remuneration policies

109. We believe that transparency is of the essence when stipends are being set, and that there needs to be as much clarity as possible over which clergy receive differentials. **We recommend that each diocese should have a committee with responsibility for setting remuneration policy in that diocese.** A possible model is provided in *Generosity and Sacrifice*. **We recommend that these committees should be statutory bodies established by Measure.**
110. **We recommend that these remuneration policies should cover the following areas:**
- **what allowance the diocese makes for regional variations in the cost of living;**
  - **which posts should carry a differential and how much;**
  - **whether the differential is given for a defined period and the reason for it;**
  - **how the diocese ensures that the ceilings operate for at least 80 per cent and not more than 20 per cent of incumbent status clergy within the diocese (see paragraphs 94–103).**
111. **We recommend that each Diocesan Remuneration Policy should be published within the diocese following approval by the diocesan synod, and each year in the CSA's annual report to the General Synod.**
112. **We recommend that clergy should be represented on these Remuneration Committees, but accept that further investigation will be required into the legal implications.**

## Housing

### Origins

113. We reviewed the advantages and disadvantages of provided housing.

### Advantages

114. There are many parishes up and down the country where the parsonage house is the centre of parish activities. In many cases, it would not be practicable for a prospective incumbent to purchase a house that provided such facilities. In some areas there would simply not be a house (even of a lower standard) that could be afforded, while in others no privately owned housing is available. This would have severe effects on the national deployability of clergy that is so vital a feature of the Church of England. Thus if all clergy houses were sold, it would be extremely difficult to secure local pastoral care and the Church of England would see many of its clergy commuting a considerable distance between their home and the parish. It would lead to the loss of the traditional pattern of clergy living and working among their parishioners.
115. There are two tax advantages to clergy arising from provided accommodation. First, by virtue of the requirement to live in the provided house, the clergy are deemed to be in accommodation provided for the better performance of duties. Therefore no tax charge is levied on the provision of the house, as would be the case, for example, if a company provided a house for a director. Second, a proportion of the stipend may be paid free of tax and national insurance in respect of reimbursement of the cost of heating, lighting and cleaning of the official house. This benefit, however, is restricted by the operation of a clawback mechanism known as 'service benefit' and the result is thus a modest tax benefit to the clergy.

### Disadvantages

116. Although provided accommodation is undoubtedly a benefit, the particular drawbacks need to be acknowledged.
- Clergy are generally required by virtue of their office to live in the accommodation provided and thus have no unfettered choice in where they live.
  - Clergy generally want to be available at home/office to their parishioners, and, even if clergy take appropriate time off and use devices such as answerphones, there is an expectation in many minds of constant availability.
  - Part of the accommodation is office space and is frequently used for meetings and offering hospitality. The tax allowance for heating, lighting and cleaning reflects this usage.
  - Clergy have to provide accommodation for themselves and their families on retirement.

### The cost to the Church and the clergy

117. We examined the possibility of clergy providing their own houses, with a compensating adjustment to stipends. We looked at how much money would be released if all parsonage houses were sold and the proceeds invested. If one assumes an average value for a parsonage house of £175,000 and an average real income (after allowing for inflation) of 2.5 per cent, the annual amount of real income that would be available is about £4,375 per house per annum.
118. It would cost the Church about £12,750 p.a. in additional stipend to allow a member of the clergy to purchase a house of the standard recommended above. Part of this would be met by £4,375 p.a. from the capital arising from the sale of clergy houses, and another £2,000 p.a. from savings on maintenance and other outgoings. This would leave a shortfall of some £6,195 p.a. We think that the additional cost to the stipends bill would not be attractive to the Church at large.
119. **We strongly recommend on both pastoral and financial grounds that the Church of England does not change from its existing position of providing housing for clergy as part of their remuneration package.**
120. A number of dioceses have clear policy guidelines relating to the standards of accommodation and the mutual expectations of the clergy and the diocese in respect of any work to be done to the house. **Accordingly, we recommend that every diocese should have policies on the housing of incumbents**

**and assistant staff, have them approved by their diocesan synod or other appropriate body, and communicate them widely to the clergy and parishes.**

121. There are no less than seven different categories of ownership of clergy housing managed by four different bodies. These have arisen by accident of history and appear to cause confusion in the minds of church people and the wider public alike. There are also additional administrative costs connected with this complex web of arrangements. We did not consider that making a recommendation to clarify this complexity was within our terms of reference. **Accordingly, we recommend that further work to simplify the Church's legal systems be undertaken at an early date by dioceses, the Archbishops' Council and Church Commissioners.**

## Pensions

The present provisions of the scheme

122. The main elements of the benefits provided by the pension scheme were agreed by the General Synod in 1980, following discussion of a detailed report *The Pensions of the Full-time Ministry* (GS 464) from the Pensions Board and the Church Commissioners. They are shown in Appendix 8.

Increases to pensions in payment

123. It has been a statutory requirement since 1997 for 'defined benefits' schemes, such as the existing scheme for clergy, that increases in pensions after retirement reflect 'limited price indexation' (LPI) – that is the rise in the retail price index but with an upper limit of 5 per cent in any one year. Most schemes of this kind give increases that have regard to that obligation or, at best, fully match price inflation.
124. The declared aim for the clergy scheme, last reaffirmed by the General Synod in 1996, is to increase the pension after retirement in line with the annual increase in the stipend. This ensures that all clergy who retire at or after the pension age and who have served 37 or more years are entitled to the same level of pension, regardless of the date of their retirement. This provision formed an integral part of a retirement package related to a stipend which is deemed to be a 'living allowance'.
125. New pension arrangements introduced from January 1998 mean that the Church Commissioners pay for all pensions earned up to the end of 1997, and a new scheme, funded mostly by dioceses, covers the pensions accrued from 1998 onwards. In April 2001, after an actuarial review, the Pensions Board accepted the recommendations of its actuaries that the contribution rate would need to rise from April 2002 from 21.9 per cent of the previous year's National Minimum Stipend to 29.1 per cent if the level of benefits provided by the scheme was to be maintained in future. The additional cost to dioceses will be £11 million p.a.
126. We had been minded to suggest some changes to the pension arrangements for clergy. Issues that were being examined included the following:
- whether the period of service for a full pension should be extended from 37 to 40 years;
  - whether post-retirement increases in pensions should continue to be linked to increases in stipends;
  - whether benefits might continue to be accrued for service beyond 65 if someone has already completed 37 years' service (or 40 years);
  - whether members should be required to contribute to the scheme;
  - whether the present 'defined benefits' scheme, where benefits are linked to the number of years served, should be replaced wholly or in part by a 'defined contributions' or money purchase scheme.
127. These questions have been examined in further detail by the Financial Issues Working Group, set up by the Archbishops' Council to consider the issues arising from the required increase in the pensions contribution rate. The Group's report is contained elsewhere within this document.

## Pension differentials

128. The usual understanding of pensions is to see them as deferred pay. If we are correct in holding that differentials in stipend are theologically, ethically and practically just, then the same principle can be applied to pensions. However, it should be noted that the current pension differentials are substantially less than the current stipend differentials. **Accordingly, we recommend that there should be no changes in the current pension differentials.**

## Retirement housing

129. Clergy in office are paid a stipend and are provided with housing (or a housing allowance). The existing pension scheme takes into account that clergy have to provide their own housing in retirement.
130. In 1982, the General Synod agreed that a scheme should be established to help clergy with insufficient resources of their own to obtain retirement housing. Since the capital for the scheme is limited, the Pensions Board places a number of restrictions (mostly relating to size and price) on properties that can be purchased by retired clergy.
131. Another perceived disadvantage of the scheme is that mortgages can only be obtained from the Board up to three years before the pension age. The clergy survey revealed that 38 per cent of clergy own a residential property. We believe that many others would welcome the opportunity to do so, but do not have any capital to use as a deposit.
132. **Accordingly, we recommend that the Pensions Board, the Church Commissioners, dioceses and other possible sources of funding consider the possibility of finding sufficient capital for loans to provide 'pump priming' loans to clergy to enable them to make their own provision for retirement by lending them the money for a deposit on a house, the mortgage for which could be funded by letting it until they were approaching retirement.**

## Other issues

133. We looked at the following areas: clergy expenses, the taxation of clergy, job security and employment rights, additional earnings and payments to clergy from charitable sources by dioceses and clergy charities. These are considered in *Generosity and Sacrifice*.

## Payments to clergy from charitable sources by dioceses and clergy charities

134. We wrote to diocesan bishops and clergy charities, asking them for details of the assistance they provided to clergy. The figures we received are not complete, but suggest that around £250,000 was made available from diocesan and other funds to about 1,200 clergy.
135. The role of clergy charities is also immensely significant. On the basis of the responses received, approximately £4.5 million was distributed in 1999 to around 3,600 clergy. We wish to take this opportunity to pay tribute to work done by clergy charities, something for which the Church will always be grateful.
136. How best to assist clergy will always be a question for the individual charities to decide in accordance with their particular trust deeds. **The results of our work suggest that particular areas where we recommend charities might wish to consider focusing their assistance are likely to be the following:**
- i) **reconsidering their investment policies to make loans to clergy to enable them to make provision for retirement housing (see paragraphs 129–132);**
  - ii) **providing assistance for clergy with children, particularly with a non-earning spouse or no spouse;**
  - iii) **assistance with paying off higher education tuition fees and student loans.**

## Affordability

### The present situation

137. The estimated stipends bill for the year 2001/02 was approximately £176.5 million (including employers' national insurance but not pensions contributions). This was funded from the following sources:

Source	£ millions	
Church Commissioners	26.5	(15%)
Cathedrals	0.4	(0.2%)
Dioceses and parishes	133.8	(75.9%)
Parochial fees (incumbents' fees)	14.3	(8.1%)
Other local income	1.4	(0.8%)
<b>TOTAL (to the nearest 0.5m)</b>	<b>176.5</b>	

### The current financial state of the Church

138. The most recent in-depth survey of the financial health of the Church of England dates from October 2000. The financial forecasts made by dioceses at the time gave cause for concern. Thirty-six dioceses predicted annual deficits over the period 2001–3 averaging between 2 per cent and 10 per cent p.a., whilst only two predicted surpluses. The remaining ten forecasts were near to breaking even. The overall deficit was forecast at about £10 million p.a. Parishes recorded overall surpluses of £41 million in 1998 and £16 million in 1999.
139. This survey was undertaken before the results of the actuarial review of the pension scheme were known. The additional cost to the Church of preserving the existing pension arrangements for clergy will be £12 million p.a., £11 million of which will fall on dioceses (although the Church Commissioners will be offering a proportion of relief until 2004).
140. In contrast, there has been a heartening increase in giving which rose during the period 1990–99 from around £4 per person per week to nearly £7 per person per week. In real terms, taking inflation into account, this is an increase of 52 per cent. Nevertheless, giving is still well below the General Synod's target of 5 per cent of take-home pay.
141. In 2000, the new Gift Aid scheme was launched which should allow tax recovery on giving to be made more easily than under the previous scheme of covenanted giving. The Government announced in 2000 that the rate of VAT paid on repairs to listed buildings would be reduced from 17.5 per cent to 5 per cent. This should result in a saving to the Church of at least £10 million p.a.. These changes will, however, take time to affect the overall pattern of the Church's finances.
142. In addition, the number of ordained stipendiary ministers in the Church of England has declined over recent years. Despite recent welcome increases in ordination candidates, this trend will continue for the foreseeable future. As indicated in the supplementary report to *Managing Planning Growth* (CHP, 2001), stipendiary clergy numbers are projected to decline by 1 per cent p.a. over the next decade, even if the average number ordained to stipendiary ministry each year remains at 300. This will result, in time, in savings on the total stipend bill of approximately £17.5 million (excluding pension contributions) at current figures.
143. It is clear that there are no great hidden reserves that could be unleashed to pay for substantial stipend increases and that any increases will have to be funded in the future, as in the past, by increased giving.

### Aspirations for change

144. **We recommend the following hierarchy of aspirations:**
- to bring the basic level of stipend for assistant staff (curates and lay workers) up to the current National Minimum Stipend for incumbents – **cost: an additional £200,000;**

- (ii) to increase the National Stipend Benchmark from its current level of 1.05 of NMS (£16,910) to 1.1 of NMS (£17,640) – **cost: an additional £5 million**. (Note: aspirations (i) and (ii) do not produce any increase in the level of pension contributions, since there is no increase in the National Minimum Stipend on which the pension is based);
- (iii) to pay all incumbents a stipend of at least £20,000 – **cost: an additional £28.5 million (£23.3 million if aspirations (i) and (ii) have been implemented, excluding pension costs (see note below))**;
- (iv) bringing in a new stipend system, as suggested at paragraphs 94–103.

#### Conclusion

- 145. The base from which any stipend increase can be paid must be increased giving. Raising the money to increase the stipends of the clergy is not only a financial challenge to each diocese, but a spiritual one. If giving within the Church were at the recommended level of 5 per cent, there would not be any need for the discussion on affordability.
- 146. As things stand at present, there will be many dioceses who, whilst sympathetic to the aim of improving clergy conditions, will find themselves unable to afford to lift stipends from their current levels without help from wealthier parts of the Church. This presents a challenge to the Church, as a national Church, to be far more willing than it has been to share the financial burden. The reality of our proposals is that their implementation may require further mutual support between dioceses. The principle of mutual support has been broadly welcomed, but there remain many difficulties between that broad agreement and its detailed acceptance and implementation.

Note: if the current pension arrangements are maintained, the pension costs associated with aspiration (iii) would be £14–£14.5 million. This is made up of £7–7.5 million in respect of pensionable service from 1998 onwards, plus a reduction of £7 million in the Church Commissioners allocations to cover the cost of past service. The figures quoted in *Generosity and Sacrifice* refer only to future service and relate to 2002–3, whereas this figure is for 2001–02.

*Part Three*

# Clergy pensions

## Introduction

147. The Church Assembly first established a contributory pension scheme by way of the Clergy Pensions Measure 1926. A capital sum was provided by the Ecclesiastical Commissioners (one of the predecessor bodies of the Church Commissioners), and annual contributions were made by the Commissioners, the Church Assembly and the scheme members themselves. The Clergy Pensions Measure 1954 placed full financial responsibility for clergy pensions on the Church Commissioners. The cost of pensions became a statutory charge on the Commissioners' fund and contributions by members ceased at the beginning of 1955. Various improvements and adjustments were made over the next 25 years but the next significant step was in 1980 when the General Synod considered a joint report from the Commissioners and Pensions Board entitled *The Pensions of Full-time Ministry*.
148. This 1980 report contained what became known as 'the three aspirations', which set out that, as rapidly as finance permitted and in order of priority, the Church should (a) continue to improve levels of clergy pension for those within the scheme, working towards a total pension equal to two-thirds of the CSA minimum stipend for the previous year; (b) work towards a widows' pension of two-thirds of the clergy pension; (c) increase the lump sum payable on retirement for full service to up to three times the pension. These aspirations were achieved in the late 1980s and it was considered that a full service clergy pension (which at present amounts to £10,380), together with the state pension, provided a satisfactory sum to live on. There has been some erosion of that position since the 1980s because increases in State pensions have been at a lower rate than earnings and stipends (and the Stipends Review Group estimated the effect of this at around £1,000).
149. The true costs of providing this package in full have only been assessed relatively recently, and in the early 1990s it became apparent that it could no longer be funded alone from the Commissioners' historic assets. As a consequence, the Church of England Funded Pensions Scheme (CEFPS) was established with effect from 1 January 1998 to provide benefits in respect of service after that date and is funded by contributions from dioceses at a rate determined by the Church of England Pensions Board. (The cost of all benefits arising from previous service continues to be met by the Church Commissioners.) The contribution rate was initially set, having regard to actuarial advice and following consultation with dioceses, at 21.9 per cent of the pensionable stipend.
150. Like all pension schemes, the clergy scheme is required to undergo an actuarial valuation every three years, the first being due at 31 December 2000. The Pensions Board concluded that it was necessary for the contribution rate to be increased from 1 April 2002 to 29.1 per cent (which is an increase of one-third on the current rate). A further increase to 29.5 per cent will be required from 1 January 2003 when the scheme takes on its own administrative costs hitherto met by the Church Commissioners (but that will release a further £0.6 million for distribution as parish ministry support).
151. The size and suddenness of this increase have understandably been a matter of concern to the Church. Alongside other measures to help in coping with this additional burden (estimated in total at a cost of around £12 million a year) and conscious also of a number of initiatives that would impact on the Church's finances in the next few years, the Archbishops' Council established a working party to make a preliminary assessment of the various issues. This report is the first by the Working Group (whose membership and terms of reference are set out in **Appendix 1**).
152. Since the announcement of the substantial increase in the contribution rate, many have asked that the retirement provisions be re-examined. Whilst it is not the Working Group's task to determine pensions policy, we have sought to identify, cost and offer brief comments on, various alternatives to the current retirement benefits in order to inform the Church's wider consideration of this subject. We have taken, and been greatly assisted by, actuarial advice, although the options that we have considered would require further and more detailed costing if one of them were favoured.
153. We would wish to stress at the outset that consideration of alternative models for clergy pensions provision should not imply that the current retirement provisions have to be abandoned. It is clearly of the utmost importance that the issues are weighed carefully and prayerfully, and that decisions about clergy conditions of service are taken 'in the round' and not as a hasty reaction to financial pressures. Whilst this report will inevitably focus on alternative models, to assist in comparing those against the current position, judgements must be taken about the level of pension provision that the Church will consider appropriate; about the level of risk that clergy can reasonably be asked to bear; and about the ability of the Church to find the resources to fund different levels of benefit, much of it through giving by people in parishes, and to cope with significant changes in the contribution rate.

## How has the current position arisen?

154. The investment performance of the CEFPS over the three-year period (1998–2000) has been good (a return of 8.2 per cent p.a., compared to a return on the FTSE All-Share Index of 5.0 per cent p.a.). The target the investment managers were set (to obtain a return 1 per cent p.a. above the Index) has therefore been more than met and the return also exceeds the long-term assumption (4.5 per cent p.a. above price inflation) made in the calculations underlying the current contribution rate. However, despite this, a substantial increase in the contribution rate for future service is now required. The reasons for this are summarized in the report *Forthcoming Financial Issues* and each has contributed negatively to the actuarial position of the scheme. The variations that can occur in each of these factors should caution us against adopting assumptions that are optimistic as such an approach can result in unexpected deficits building up within a scheme.
155. It should be stressed that increasing life expectancy and lower investment returns in future are factors that have had a substantial impact on all defined benefit (final salary) pension schemes. Such schemes place all the risk on the employer, whose responsibility it is to meet the actual cost of the benefits promised. Contributions will have to be increased to deal with any shortfall arising from an unfavourable change in conditions (or, conversely, may be reduced if a 'surplus' materializes). The cost of such schemes and the volatility that can be associated with them are causing some organizations to reconsider the basis of their pension arrangements. Actuaries take a long-term view, with the underlying hope that contribution rates will remain reasonably stable. It was understood by dioceses that adopting assumptions towards the optimistic side of the centre of the possible range increased the possibility of a higher contribution rate being needed subsequently. It will be realized that, in addition and more significantly, the changes in conditions since the contribution rate was originally calculated in 1995 have had a marked effect.

## Why question the current arrangements?

156. There is no possibility of adopting a lower contribution rate than 29.1 per cent for the current benefit package. The actuaries would have been more comfortable with a contribution rate of 32.4 per cent, reflecting annual stipend increases of 1.5 per cent (rather than 1 per cent) above price inflation, but the Pensions Board accepted that the Church was likely to find that unaffordable. It has to be accepted that, whilst the assumptions may prove to have been pessimistic (which might give rise to a reduction in the contribution rate in the future), they remain at the optimistic end of the range with the consequent possibility of a further increase in the rate in the future.
157. Some will argue that the current arrangements provide only a satisfactory level of provision for clergy in retirement. It is for the Church to form a judgement about this. We do, however, need to highlight that if it decides to maintain the current benefit level, at least for the next few years, then a contribution rate of 29.5 per cent of pensionable stipends will have to be paid from January 2003 and this figure may increase after future actuarial reviews. DBF chairmen and diocesan secretaries were invited in May by Mr Alan King, Chairman of the Consultative Group of DBF Chairman and Secretaries, and a member of our Working Group, to indicate issues they would wish the Group to consider. Almost all asked that the retirement benefits package should be reviewed and many have made suggestions of the kind that are discussed in this report. In the light of that, we have looked at alternative benefit packages and structures and, in particular, at those which might involve a lower level of contribution and one less likely to fluctuate.
158. We have nonetheless been conscious throughout our discussions of the need to consider carefully the position of the clergy, especially those households that will be primarily dependent in retirement on the clergy pensions scheme. **Any changes which the Church ultimately decided to make to the clergy pension arrangements would only apply in respect of future service.** Those who have already retired would be completely unaffected, and those not yet retired would remain entitled to prospective benefits on the existing basis for service up to the effective date of any new arrangements. It would be possible to apply any changes only in respect of new entrants to the scheme but this would take 40 years before the effect on the contribution rate had fully worked through. This report is intended to provide sufficient financial information to enable informed discussion of whether, and if so what, changes should be made to the clergy pension scheme. In the remainder of this report we consider first variations to the benefits provided by the current scheme and then more radical options. Details of the current scheme are summarized in **Appendix 8**.

## Variations to the current (defined benefit) scheme

159. The Group has taken actuarial advice as to the approximate reduction in the contribution rate that would result from any of the following changes to the current benefit structure. The table at **Appendix 7** sets out the elements of the current contribution rate.

(a) Post-retirement pension increases

Pension levels are reviewed each April and are guaranteed (and required by law) to increase each year in line with the lower of the increase in price inflation or 5 per cent. The Church has discretion to grant higher increases and General Synod has resolved that the rate of pension increase should match the rate of increase in the previous year's National Minimum Stipend and in practice this has always been achieved. However, most pension schemes only provide for increases at the level of price, rather than earnings, inflation and it would be possible for the Church to follow this practice. This would mean that pensions in payment would in the first year still be two-thirds of the previous year's National Minimum Stipend but thereafter would be expected to increase at a slightly lower level than stipends.

Our actuaries advise that the Pensions Board would need to follow a more cautious investment policy if the Church went down this route (since the discretionary element associated with the current approach to increases would have been removed). The overall saving to the Church of making this change would equate to a reduction in the contribution rate of between 0.7 per cent and 2.2 per cent (dependent on the level of contribution rate as set out in the next table). There would additionally be a substantial saving to the Church overall through reducing the Commissioners' pension liabilities by about 10 per cent, thus releasing an additional £5 million p.a. for non-pensions support.

(b) Fix the pensionable stipend

If, in addition to providing pension increases after retirement only in line with price inflation, the pensionable stipend were fixed at the current level plus RPI, the contribution rate would fall to 26.2 per cent. The Group does not commend this possibility, as over time it would substantially erode the value of the pension (in a similar way as has happened with the basic state pension) and create a pensionable stipend figure which bore no relation to stipends actually being paid.

(c) Members' contributions

In many occupational schemes members are required to contribute to the scheme. The introduction of members' contributions to the clergy scheme has been resisted in the past, primarily on the argument that it would be necessary to increase stipends and that increase would attract national insurance contributions. There would therefore be a net cost overall if clergy were not to suffer financially from the change. On the other hand, some will question whether, on presentational grounds, it is appropriate for the clergy to continue to enjoy a non-contributory scheme. It could also be argued that if incumbents' stipends are to be based on headteachers' salaries (see paragraph 173), then incumbents should pay the same contribution to their pension (believed to be 6 per cent). This needs to be part of the debate on clergy stipends, although at present due to the national insurance cost, we do not recommend compulsory members' contributions.

However, we discuss later in this report the possibility of contracting into what from April 2002 will be known as the State Second Pension (currently SERPS). This would involve a cost to clergy which might be seen as, effectively, a (small) members' contribution. Members' contributions are not quantified in the table on page 36 as each 1 per cent members contribute enables a 1 per cent reduction in employer contributions for the same level of benefit. Clergy are of course able to make voluntary pension contributions (within Inland Revenue limits) and the alternative types of schemes discussed later in this report would allow for those contributions to be earmarked specifically for pension provision for the member rather than (as at present) needing to be channelled into a separate voluntary contribution (AVC) arrangement.

(d) Reduction/elimination of lump sum

If the retirement lump sum (of three times pension, but calculated at the basic rate for all members) were eliminated, the contribution rate of 29.5 per cent would fall by approximately 3.7 per cent. If it were reduced, say, to twice the pension, the contribution rate would fall by 1.2 per cent, and so on. Whilst some commercial pension schemes do not provide for a separate lump sum (but allow for part of the pension to be commuted into a lump sum), we would be surprised if the Church wanted to go down this route, due particularly to the need for clergy to acquire housing, for some for the first time.

(e) Changing the annual rate of pension accrual

At present, 37 years of pensionable service are required to qualify for a full pension on retirement at or after age 65. If a full pension and retirement lump sum instead required 40 years' service, the period applicable in many schemes, the contribution rate of 29.5 per cent would reduce by approximately 2.1 per cent. The pensionable service of most clergy is under 40 years. This would reduce the proportion who became eligible for a full pension but of course some of those entering stipendiary ministry later will have other accrued pension benefits. There may be issues in relation to the age of retirement which would need to be investigated in this context.

160. The effect of these changes is summarized in the following table. Each 1 per cent reduction in the contribution rate equates to a saving to the Church of around £1.6 million p.a. The figures should be regarded as illustrative only since the changes cannot be seen in isolation from each other and a more specific assessment would be required if there were strong support for adopting one or more of the variations outlined above.

	<b>Stipend Increases 1% above RPI</b>	<b>Stipend Increases 1.5% above RPI</b>
Contribution rate for current basis (including expenses and 1% in respect of past service deficit)	29.5%	32.4%
<i>Reduction to rate for change in respect of future service:</i>		
Eliminate retirement lump sum	3.7%	3.9%
Post-retirement pension increases limited to RPI		
Saving	2.6%	4.3%
Less adverse effect of lower investment return	1.9%	2.1%
Net saving	0.7%	2.2%
Fix pensionable stipend in real terms	2.6%	4.0%
Accrue full pension over 40 years instead of 37	2.1%	2.4%

### Stipends Review Group

161. The Stipends Review Group began to consider alternative benefit structures, but ceased such consideration once news of the increase in the contribution rate was received and it became clear that a more detailed review would be required. The Group was considering whether post-retirement increases should in future be in line with price inflation, rather than with stipend increases. It also considered amending the annual accrual so that service of 40 years was required to achieve a full pension at age 65, whilst also allowing additional years worked (after age 65) to count towards pension entitlement on top of the 40 (unlike at present). The effect of these changes would be a contribution rate some 3 per cent lower than that indicated following the valuation.
162. The Review Group also considered basing the pension on the *current* year's national minimum stipend whilst recognizing that if this change were made the annual accrual would need to be adjusted to neutralize the effect on the monetary level of the pension. Such a change would avoid a number of potential difficulties which the current arrangements present, and we would also support it.
163. The Review Group's first, second and fourth aspirations do not affect the National Minimum Stipend or the pensionable stipend and so have no direct consequences on the level of pensions or their funding in respect of either past or future service. However, the Group's third aspiration (*that the appropriate point of comparison for an incumbent's remuneration should be 80 per cent of the salary of a primary school headteacher*) would create a further substantial cost for the Church if it fed through directly into the level

of pensions. Whilst the contribution rate would not increase, the *amount* of contributions would increase by £7–7.5 million p.a. Furthermore, a substantial past service deficit of around £7 million p.a. would emerge (of which the largest part would fall on the Church Commissioners in relation to service prior to 1998, which would result in a significant reduction in their capacity for ongoing non-pensions support). **The total cost to the Church (set out in more detail in Appendix 11) would therefore be of the order of £14–14.5 million p.a. if the proposed increase in stipends fed through directly into the level of pensions.** Even if the overall stipends bill is reducing in relative terms with the reduction in the number of stipendiary clergy, increases in stipends thus do have a direct (and potentially very substantial) effect on the cost of pensions, which needs full evaluation and consideration in the context of the Review Group's proposals.

164. The Stipends Review Group's recommendation for an increase in the stipend is allied to a change in the definition of the stipend, so that it would no longer be a living allowance just sufficient for clergy's needs. The present pension package is designed to give clergy the disposable income in retirement that they enjoyed while in service. It would not necessarily be right to maintain the existing link with the stipend at the time of retirement if the nature of the stipend itself is undergoing change. Further, an increase in the stipend will be much more costly to achieve if the pension is simply linked to the new and higher stipend by the same formula as in the past. We would therefore need to explore whether the calculation of the pension for past service should be limited in some way.

Pension age

165. The normal retirement age (or, in this case, the minimum normal pension age since clergy are not employed and do not have a contractual retirement age which is reflected in the rules of the pension scheme) is also a key factor in determining the costs of a scheme and hence the rate of contributions needed to deliver a particular benefit structure. Whilst we have recognized that raising the pension age would in itself lead to a reduction in the required contribution rate, we do not believe that such a course would be feasible or appropriate for existing members, a proposition that also raises wider questions about deployment strategy. We have therefore not obtained any figures. This would also raise the issue of whether service between 65 and 70 is to generate additional pension entitlement (as considered by the Stipends Review Group – see paragraph 161).

## Alternative forms of pension scheme

166. There are two principal forms of occupational pension scheme: defined benefit/final salary and defined contribution/money purchase.
- (a) A *defined benefit scheme*, such as the present clergy pension scheme, provides benefits on a predetermined basis by reference to length of pensionable service and earnings. The cost of providing these benefits (usually borne primarily, or exclusively, by the employer) is not known in advance. It depends upon what happens in the future (particularly on salary levels). Based on an assessment by the actuary every three years, the contribution rate fluctuates over time, although actuaries use long-term assumptions to try to minimize such fluctuations. Under such an arrangement, the level of benefit is known in advance, enabling the member to know the level of their pension as a proportion of stipend, but the employer cannot predict their future financial commitment to the scheme. The risk therefore lies entirely with the employer.
- (b) With a *money purchase* arrangement, on the other hand, it is the contributions (rather than the benefits) that are defined in advance. The benefits that will be payable when a scheme member retires are not known in advance and comprise whatever can be provided at the point of retirement from the accumulated contributions paid. The risk with a pure money purchase scheme therefore lies entirely with the members who, prior to retirement, will only have a broad idea of the benefits that they will receive. These will be heavily dependent on, for example, investment performance.
167. A key difference between the two types of arrangement is therefore who bears the risk: under defined benefit it is the employer; under money purchase it is the member. Money purchase schemes are often referred to as defined contribution. We prefer not to use this term since it carries the connotation that the employer agrees to pay a particular rate of contribution each year and then leaves the employee at the mercy of the investment markets for the rest of their career. (This may of course work to the individual employee's advantage as easily as to his disadvantage.) But under a money purchase scheme it is always open to the employer to review the position regularly and vary the rate of contribution: as described

below we think the Church will want to consider this. The essential difference from the defined benefit scheme is that the employer is not obliged to pay whatever is required to provide an agreed benefit.

168. Risk is a key factor in the financing of pensions because it is not possible to predict what will happen in the future. Assumptions, which can only be an estimate of what will actually occur, are therefore required in order to relate contributions paid today and benefit payments made in the future. The uncertainty arises in three principal ways:
- (a) General uncertainty  
Any pension scheme is based on certain core assumptions of which one of the most significant will be the assumption of future rates of investment return: a variation of just 1 per cent p.a. over the period of provision in the total return from investments would lead to an increase or decrease in the contribution rate of around 6 per cent for the current clergy pension scheme.
  - (b) Averages over time  
Even if the assumptions prove to be correct on average, there will inevitably be variations from time to time. For example, if it is assumed that the total return on investments will be on average 4 per cent p.a. above price inflation, in practice it may sometimes be below price inflation and sometimes in excess of 10 per cent above price inflation. Such variations, in a defined benefit arrangement, will result in deficits or surpluses, giving the possibility of the employer paying a higher or lower rate of contributions until the position has been corrected. A deficit has occurred in the case of the clergy pension scheme, where it will be necessary for around 15 years to pay an additional 1 per cent of pensionable stipends. Under a money purchase arrangement, members who retire following a period of favourable experience (for example, good investment returns) will enjoy larger benefits and vice versa. Investment returns in particular can be quite volatile, which may lead to members with the same length of service receiving quite different levels of pension.
  - (c) Averages over members  
In a large scheme (such as the clergy scheme), averages over members (for example that 80 per cent of members will be married at retirement) will usually not vary substantially from year to year. However, in a money purchase scheme the position of each individual becomes more significant and averages cease to be relevant, since (to use the same example) either an individual is married (in which case they would receive a lower pension due to the need to make provision for a spouse's pension) or they are not. Our actuaries have estimated that a similar level of benefit to that provided for a scheme member of average age from a contribution of 25 per cent of salary would involve a contribution of less than 15 per cent for those under 35 and some 34 per cent for those over 60. This results from the varying periods of time over which the contributions are invested.

#### Money purchase schemes

169. In its simplest form, a money purchase scheme involves contributions at a stated rate of an individual member's salary. Each contribution is used to purchase units for the member in an investment pool. The value of the member's 'fund' at any time is the value at that point of the units purchased for him or her. When a benefit becomes payable, an annuity is purchased at the current rates using the balance of the value of the member's 'fund' after any allowed lump sum benefit has been deducted.
170. It would be impossible to smooth out completely under a money purchase scheme the impact of the factors mentioned in the previous section. There is, however, a significant amount that could and, we believe, should be done if the Church were to decide in favour of money purchase. First, the contributions in respect of each individual should be related to the age of the member at the time they are paid. All employers would pay a single ('average') rate for all members but the total monies would be allocated to members centrally on an age-related basis. Secondly, contributions attributed to each member would not be accumulated on a cash basis, but used to purchase amounts of pension payable at the pension age. This would smooth the effect of annuity rate variations as annuities would not be purchased. Thirdly, by adopting a 'with profits' arrangement, individual contributions would purchase a defined amount of pension calculated using cautious assumptions. Bonuses would then be added to reflect experience more favourable than assumed, which would allow some sharing of the risk between members. ('With profits' will sound a note of caution in view of the recent experience of Equitable Life. It has, however, been operated successfully in the Church Workers Pension Fund for nearly fifty years and Equitable Life's problems stemmed from its guaranteed annuity promises rather than from the nature of its with profits fund. The Church would be able, with professional advice, to construct whatever model best suited its needs.)

171. Some employers have moved from defined benefit to money purchase schemes in recent years. Whilst the overriding factor will often have been to reduce and/or stabilize the cost to the employer, the burden placed on companies offering defined benefit schemes due to legislative changes and complexity has also been a significant reason. The minimum funding requirement and several other provisions of the Pensions Act 1995 add complexity to defined benefit schemes but, conversely, defined benefit schemes are generally easier to administer than money purchase arrangements. Although the accumulated amount of pension under money purchase would be notified to the member each year, the prospective amount at retirement would not be known, nor would the pension at retirement in relation to the stipend level at that time. Many parishioners will have money purchase pension arrangements (as all stakeholder and personal pensions fall into this category). It is therefore important that the Church should be seen to consider this option seriously. If it were decided in principle to go down this route, further consideration would need to be given to a number of other details, such as the basis of calculation of benefits for those retiring on grounds of ill health and for surviving spouses of those who die in service.

#### Hybrid schemes

172. As the defined benefit and money purchase approaches polarize the location of risk, it may be thought that some kind of hybrid arrangement would provide a good compromise. By hybrid we mean a scheme where part of the contribution purchases a defined benefit and the rest is invested on a money purchase basis. Such an arrangement would be complicated to set up, to explain to members and to administer with consequences for administrative costs, but we believe that it is worthy of serious consideration alongside the other alternatives and we set out in the following paragraphs an idea of how such a scheme might operate. The possibilities are, however, almost endless within certain legal and other constraints.
173. We envisage that a hybrid arrangement would be based on an employer contribution rate which was fixed in the medium term. (We cannot reasonably expect under any arrangement to preserve a fixed contribution rate in the long term since longevity and investment returns, for example, may change markedly.) Having set a contribution rate, it would be less likely that it would need to vary at successive actuarial reviews. In view of the concerns about the new level of contribution of 29.5 per cent, we have assumed that, if a decision was taken in favour of a money purchase or hybrid arrangement, a lower rate would be expected, whilst recognizing that this may well lead to a lower level of benefits. For illustration we have worked on the basis of a contribution rate of 25 per cent but the principles set out would apply equally if a different rate were decided upon. As throughout this report, the contribution rate is taken to include the 1 per cent due to the current deficit, which means that for around the next 15 years the actual amount available for future service benefits under this scenario would be 24 per cent, less the administrative expenses of the scheme, and this has been allowed for in the following examples within the defined benefit section.
174. Out of a fixed employer contribution rate, the balance not required for the defined benefit part of the scheme would be applied on a money purchase basis. We would recommend that the money purchase section of a hybrid scheme is arranged on a group basis under a 'with profits' arrangement as described earlier in this report. If, at future actuarial valuations, the required contribution to the defined benefit section were to increase or decrease, the contribution to the money purchase section would be reduced or increased correspondingly. Such an approach would result in a stable cost for the employers, whilst at the same time maintaining a certain level of defined benefits for the members.
175. Based on a total contribution of 25 per cent, we have considered three possibilities, each retaining the current structure of a pension plus a lump sum equal to three times the pension, with spouse's pension at two-thirds of the member's pension. Under the first, the pension would be  $\frac{1}{80}$ th of national minimum stipend for each year of pensionable service. Using an actuarial basis more cautious as regards both stipend increases and investment returns (taking a mid-point in each case between the two bases on which the actuary calculated figures in connection with the triennial valuation of the scheme), including expenses and the past service deficit, a contribution rate of approximately 22.5 per cent (if pension increases in payment remained in line with stipend increases) or 21.5 per cent (if pension increases in payment were instead to be in line with price inflation) is indicated. The balance (of 2.5 per cent or 3.5 per cent) would be put into the money purchase section of the scheme. The margin to absorb any future increases in meeting the cost of the defined benefits would be small, especially if pension increases in payment remained in line with stipend increases, although our actuaries believe it should be sufficient in the medium term.

176. Alternatively, a pension of around half the current benefit level (a maximum of one-third, rather than two-thirds, final stipend) could form the defined benefit element. Using the same actuarial assumptions, and with pension increases in line with price inflation,  $\frac{1}{120}$ <sup>th</sup> of pensionable stipend at retirement for each year of pensionable service would require a contribution rate of around 15 per cent (including the past service deficit and administrative expenses). A pension of  $\frac{1}{100}$ <sup>th</sup> of National Minimum Stipend for each year of service would require a contribution rate of 17.5 per cent. Either of these possibilities would create a more substantial money purchase element and it would be possible to consider age-related contributions, etc., whereas members would receive a lower guaranteed level of benefit than under the first illustration. However, these latter scenarios (especially the  $\frac{1}{120}$ <sup>th</sup> calculation) may not satisfy the Reference Scheme Test for contracting out of the Second State Pension. This would need further investigation unless it were decided to contract the new scheme in (see paragraph 183).
177. It has to be recognized that a hybrid scheme where the overall contribution rate is fixed inevitably involves a significant transfer of 'risk' to the member compared to a defined benefit scheme. When the experience, such as investment performance, is favourable, the member reaps the rewards through the defined benefit element requiring a lower contribution rate, leaving a higher amount to be added to the money purchase element which itself will be performing better if investment returns are good. If, on the other hand, experience over a period of time is less favourable, the input to the money purchase element would be eroded (due to the defined benefit element needing to consume a higher proportion of the overall contribution rate) at a time when the money purchase element might arguably need to be higher as it would also suffer from the same factors and would be requiring a higher level of contribution at such times to generate a similar level of benefit.
178. We would therefore recommend, if a hybrid scheme were favoured, recognition from the outset that the overall contribution rate would be subject to review following each triennial actuarial valuation. Such a review would, however, involve greater flexibility than may arise under a defined benefit scheme. This would not be the same as the current situation where the Church is *required* to pay whatever contribution rate the Pensions Board, having taken advice from their actuaries, determine is required to support the level of benefits to which the Church is committed. Instead, if the overall level of benefit that could be procured from the agreed contribution rate were to vary substantially in either direction, the Church would review whether, and if so when and at what level, to vary the overall contribution rate (and/or to review the level of benefits provided by the defined benefit section of the scheme). Any increases which the Church decided upon in the overall contribution rate could be phased in a manner determined by the Archbishops' Council in full consultation with dioceses and others affected. We believe that, as part of such a review, having regard to its responsibility towards its clergy, the Church will wish to consider the approximate total level of benefit that could reasonably be expected to be forthcoming from the total pension contributions being made and to reassess whether or not this is felt to be appropriate.
- Administration and communication
179. Pension schemes are a complex matter, hence the need to have comprehensive actuarial advice before making key decisions. The level of complexity inevitably also affects the ease with which members of the scheme can understand both how the scheme operates in general and how it affects them individually. Without doubt, the easiest approach to explain, and for members to understand, is defined benefit. A pure money purchase arrangement is more difficult because of the uncertainty about the benefits to be expected at retirement. Any hybrid model will present even more of a challenge. We feel it right to highlight this issue at this point although it should not be a main deciding factor in considering the alternative routes.
180. Similarly, the operation of either a money purchase scheme or hybrid arrangement would be more costly since, for example, individual accounts have to be held in respect of each scheme member. Such extra costs (some of which would be one-off in re-programming systems and some of which would be ongoing) would, however, equate to an increase in the contribution rate of rather less than 0.1 per cent. We therefore recommend that they should be acknowledged but not be a deciding factor in considering the different options.

## Summary of principal options

181. Whatever decision is taken as regards contracting-in/out, the Church needs to decide whether to remain with a defined benefit scheme (with or without variations to the level of benefit), to move to a pure money purchase scheme, or to adopt a hybrid arrangement. It will be clear from the comments above that a reduction in the 29.5 per cent contribution rate can be achieved under any of these structures but that under the defined benefit structure no protection can be offered from potential changes in the contribution rate at each triennial actuarial review. Approximately the same level of benefits could be provided from the same contribution rate under any of the three routes: the differences are around how changes are determined in the future and the balance between certainty for those funding pensions and certainty for scheme members. Complete protection (by fixing the contribution rate) is likely to be seen as an abrogation of the Church's responsibility to the clergy (if the financial and demographic environment became more unfavourable over time) and allocating an unnecessarily high amount to pensions (if in the future that environment improved significantly).
182. We have paid attention particularly to potential volatility as, in consulting dioceses, most have said that not only the extent of the increase in contribution rate, but also the suddenness of its increase, the inability to phase it and the possibility of future changes, are as much matters of concern. It would, however, neither be appropriate to expect the contribution rate never to change in the future, nor to expect benefits never to be reviewed. The money purchase and hybrid options are not offered therefore as a means to fix the contribution rate but to provide greater flexibility in decisions over changes to its level from time to time. The different options are summarized in outline terms at **Appendix 13** and set out in diagrammatic form in **Appendix 12**.

## Contracting-out

183. Members of the clergy pension scheme are contracted out of the earnings-related part (currently known as SERPS) of the state pension scheme. As part of this review, our actuaries have drawn to our attention that there might be some financial advantage to the Church in ceasing to contract out. As this is a more technical matter, and could be pursued (or not) regardless of which of the options set out earlier in this report were pursued, further details are set out in **Appendix 10** rather than in the main part of this report.

## Fund structure

184. Following much discussion and consultation it was decided in the mid-1990s to establish a separate pension scheme for service from a date to be specified (which, in the event, was 1 January 1998). This would be responsible for paying benefits arising from service after that date in respect of which contributions would be payable by dioceses, with the monies being raised from parishes.
185. Having regard to the background which led to this discussion, dioceses stated that they should not bear any responsibility for the past service pension liability. There was also discussion about whether or not a sum (of around half the Church Commissioners' assets) should be transferred to the funded clergy pension scheme at the outset to discharge that part service liability. In the event, one of the key issues was that a transfer would be 'once for all'. If the amount proved to be insufficient to cover the liabilities, there could be no possibility of a second transfer from the Commissioners and the deficit would have had to be met by additional contributions from dioceses. Had a transfer been agreed at that time, the position would immediately have been worsened by the removal of tax credits on dividends in the first budget of the incoming Labour Government, which would have resulted in an immediate and substantial deficit in the new scheme.
186. As a result of their own triennial actuarial review, the Church Commissioners have this year reported that a smaller proportion of their fund than previously expected is required to meet their pensions liability. Therefore, a modest amount of additional money can be made available (initially for the next three years) for distribution for non-pension purposes. These changes are principally due to the Commissioners' strong investment performance over the past three years. A number of dioceses have again questioned the separation between responsibility for pension liabilities relating to service prior to 1998 and that for pensions for service after that date. Some have suggested that the Commissioners

should make a capital payment to the funded scheme to shield the Church from the full effect of the new pension contribution rate on an ongoing basis, in addition to the transitional relief which they are providing (and which is being targeted on the poorer dioceses). This could not be done without legislation and would reduce the Commissioners' capacity for non-pensions support. Others have proposed that the decision not to transfer the part service liabilities (and commensurate assets) to the pension fund should be revisited.

187. We acknowledge that some would still favour a full transfer of assets to the CEFPS from the Commissioners. However, we do not believe that this is the time to contemplate such a move. When the scheme is more mature and the pension liabilities attaching to the Church Commissioners have reduced, a time may come when the matter should be reconsidered. Either the two funds need to be run together, in which case if the Commissioners' pensions responsibilities were in deficit, contributions from parishes towards it might reasonably be expected, or they should remain separate as at present. *The principal issue for the Church at present is the level of clergy retirement benefits that is appropriate and affordable.*
188. On the most recent actuarial valuation the Commissioners' pension liabilities were also adversely affected by the increase in longevity assumptions. If their investment performance over the last three years had been only in line with the market average, those liabilities would have represented 52.4 per cent of their fund, rather than 46.4 per cent. Within the Commissioners' fund this adverse change would have permanently decreased the capacity for non-pensions support by £7 million a year. If the pension liabilities and relevant assets had previously been transferred to the CEFPS, such a deficit would have had to be made good by additional contributions from parishes. Thus, if the CEFPS took on the pre-1998 service pensions liabilities, there would be a continuing risk of similar situations recurring at future actuarial reviews.

## Security of pensions and actuarial advice

189. When the current arrangements were created, an assurance was given that clergy pensions were safe and that the existence of the two separate funds would not complicate matters from the point of view of retired clergy receiving pensions. These assurances have been honoured: clergy direct all their pensions queries to the Pensions Board and receive one pension payment representing (if appropriate) service both pre- and post-1998. It will be noted that the Church Commissioners' pension liabilities have been limited to service before 1998: they now represent less than 50 per cent of the Commissioners' fund and there is therefore over 200 per cent 'asset cover'. **Whatever decisions are taken as part of the Church's consideration of these matters, we believe that clergy pensions will remain secure and that the Church will ensure that they are properly administered and funded in the light of those decisions.**
190. Furthermore, there is no suggestion in our minds that the actuarial advice received by the Pensions Board either in 1995 or this year is not as good as would be expected from an experienced firm of actuaries and we believe no useful purpose would be served from obtaining a second opinion. We have therefore been content also to commission the Pensions Board's actuary to provide advice for us, drawing on his own substantial experience of the clergy pension scheme. The Church Commissioners are a separate legal entity with their own trustee responsibilities, assets and liabilities, and employ a different firm of actuaries. We do not consider the fact that the Pensions Board and Church Commissioners employ different firms of actuaries is a cause of concern (or results in significant additional costs). Indeed, it provides a means of checking that prudent assumptions are being made in relation to the overall management of these matters.

## Comparisons with other pension schemes

191. The limited time available to us has not allowed any detailed comparisons with other pensions schemes, although we are aware that the Stipends Review Group did take soundings of other denominations as to the level of remuneration (including pension) they provided and the results of that research are contained in the Stipends Review Group report. We did, however, consider it appropriate to set out (see **Appendix 9**) the main features of the teachers' pension scheme in view of the comparisons made in the report of the Stipends Review Group with the remuneration of a primary school headteacher.

192. We do need briefly to highlight the reason why the clergy contribution rate is at a higher percentage of stipend than would generally be the case in an occupational scheme. For example, the contribution rate paid in respect of staff of the National Church Institutions in order to generate a pension amounting to half the final salary (plus a lump sum) is 20 per cent of current salary. The reason for a higher benefit as a proportion of stipend, and hence contribution as a percentage of stipend, is the fact that housing is provided for the clergy in addition to a stipend. As a result of this, the contribution rate expressed as a percentage of 'remuneration' (made up of pensionable stipend and the value of housing as currently determined by the CSA) is around 18 per cent.

## The wider picture

193. As will be evident from our terms of reference, the pensions issue is just one of those facing the Church that we have been asked to consider, albeit arguably the most urgent and important at this particular time. We are anxious that decisions about specific issues are not taken in isolation and this report should therefore be seen alongside the report of the Clergy Stipends Review Group and the *Forthcoming Financial Issues* report. To avoid duplication, the issues set out in the latter are not repeated here. Whilst it is important that decisions are taken in the light of a full financial assessment of their implications, we fully recognize that other factors will also be a crucial part of the equation. We have tried for that reason in this report to highlight where risk falls under the various possibilities considered. We envisage that, once initial comments have been offered by the Church on the options set out in this report, a specific proposal would be worked up by the Group, in consultation with the Ministry Division's Deployment, Remuneration and Conditions of Service Committee (DRACSC), the Archbishops' Council, the Pensions Board, dioceses and others affected, for consideration alongside and in the context of further work on the other financial issues affecting the Church.
194. Consideration of any matter affecting clergy conditions of service cannot be divorced from wider questions around the deployment of the clergy. We are therefore pleased to have within our Working Group members and staff of DRACSC, which will be considering this report and proposals arising from it. It is cheaper to provide a given basis of pension benefits for younger employees than older, which would point to encouraging clergy to enter stipendiary ministry earlier, rather than later. However, we do not feel that it will be considered that such a factor should be the only or even the main one taken into account in forming ministry strategy.

## Process/timetable

195. The timetable for implementing any changes to the Church of England Funded Pensions Scheme needs to be governed both by the Church's own views as to how fast it would be appropriate to make decisions and by the rules of the scheme. It would not be necessary to alter the Pensions Regulations since these only govern benefits payable in respect of pensionable service prior to 1998. The Trust Deed provides for the rules of CEFPS to be amended by the Pensions Board with the approval of the General Synod. General Synod would need to agree proposed changes to the scheme and, at a subsequent session, to approve formally the resulting amendments to the rules. In view of the need to consult fully on any changes, we envisage that any changes to the current arrangements would only be effective for service from 1 January 2004 at the earliest.
196. We are conscious on the one hand of the need for the Church to give careful consideration to what are important and complex matters and on the other hand of the need for dioceses to be able to plan ahead. Many are experiencing substantial financial uncertainty and are understandably anxious that this issue should be satisfactorily resolved as soon as possible. Likewise, we hope to be able to work with the Church Commissioners and dioceses to make as much progress as possible in the months ahead on the other financial issues identified in the *Forthcoming Financial Issues* report. This will enable a coherent medium-term financial strategy to be agreed with dioceses at the earliest possible opportunity.

## What else can be/is being done in the meantime?

197. Even before the announcement earlier this year of the increase in the pension contribution rate, the Church was already experiencing significant financial pressure for a number of reasons. The Working Group is committed, as are all the National Church Institutions, to working with dioceses to improve the situation as fast and effectively as possible. This has involved a number of initiatives, in addition to the reduction in administrative expenditure set out in the *Forthcoming Financial Issues* report.

(a) Transitional relief

Conscious of the potential impact of the increase in the pension contribution rate, the Church Commissioners have made available an additional £10 million for further transitional relief to assist dioceses over the period 2002–4. The allocation of that sum has been advised to dioceses following consultation with them and is particularly targeted on the most needy. The Commissioners are only empowered by law to make such assistance until the end of 2004.

(b) Communication

Media reporting of the increase in the contribution rate has in most cases been accurate, and has interestingly coincided with stories about other final salary pension schemes experiencing similar difficulties (for example the front page headline in the *Daily Mail* at just the time when news of our own increased contribution rate was emerging was ‘Company Pension Funds Run Out of Cash’). It is nonetheless clearly important that lines of communication are good both with scheme members and with those in dioceses and parishes who finance clergy pensions. To this end the Communications Department produced, in consultation with the Pensions Board, a leaflet explaining the results and consequences of the triennial actuarial review. This was sent to all clergy in June both for their own benefit and for them to make available within their own parishes. Further such communication will be essential once more specific proposals emerge.

(c) Annual review

Many dioceses have asked that some mechanism be set in place so that the Church is not again placed in the situation of having insufficient warning of a substantial increase in the contribution rate. A full actuarial valuation is a substantial undertaking and we do not believe it would be helpful, or that the cost would be justified, for this to become an annual exercise. We are, however, pleased that the Pensions Board has proposed to ask the actuary each year to offer an opinion on (a) whether the assumptions that formed part of the latest triennial review are holding firm or (b) whether any significant surplus/deficit or change in the contribution rate might be expected at the next valuation if trends continued. Although the detailed calculations at the next triennial valuation could still generate unexpected results, the likelihood and extent of this should be reduced by this step. The Group would envisage that this kind of annual review would continue under any of the scenarios set out in this report.

(d) Challenge to giving

It has been argued by some that it would be well within the capability of the Church, under God, to meet in full increases in the contribution rate and that this should be the solution to such financial difficulties rather than contemplating reducing pension benefits/cutting administrative expenditure, etc. These are decisions for the Church as a whole to take, but based on the views of dioceses so far, it seems clear that, at least in the short term, the solution is by a combination of reducing expenditure and increases in giving. In saying this, we do not underestimate the crucial role of stewardship and the substantial additional amounts that Church members have generously given to finance the additional quota demands over the last ten years. We sense that the additional £11 million per annum from the increased contribution rate would not necessarily be forthcoming unless it were complemented by other measures, such as those set out above, and savings at diocesan level (and we are aware that many dioceses have been cutting back their own expenditure). It is important that clergy remuneration, including the pension arrangements, is set at levels that parishes are likely to feel are appropriate, affordable and sustainable. If that is achieved, we believe that parishes will meet the further financial challenge.

# Appendices

## *Appendix 1*

# Membership and terms of reference of the Financial Issues Working Group

## Membership

Revd Dr Bill Beaver	Director of Communications, Archbishops' Council
Christopher Daws	Financial and Deputy Secretary, Church Commissioners
Shaun Farrell	Financial Secretary, Archbishops' Council (Vice-chairman)
Margaret Jeffery	Secretary to DRACSC, Archbishops' Council
Alan King*	Chairman of the Consultative Group of DBF Chairmen and Secretaries: member of Finance Committee and DRACS
Ven. Dr Gordon Kuhrt	Director of Ministry, Archbishops' Council
Philip Mawer	Secretary-General, Archbishops' Council (Chairman)
David Phillips	Chelmsford Diocesan Secretary
Roger Radford	Secretary to the Pensions Board
Revd Dr Richard Turnbull*	Member of Finance Committee and DRACSC and Chairman of the Clergy Stipends Review Group; Chairman of the House of Clergy for the Diocese of Winchester
Secretariat	
Mark Humphriss	Chief Budget Officer, Archbishops' Council
<i>assisted by</i>	
Sarah Jowett	Financial Planning, Church Commissioners

## Terms of reference

In the light of the substantial proposed increase in the contribution rate in respect of clergy pensions, (i) to review the timing and impact on dioceses of current and forthcoming financial exercises and (ii) as part of this to consider and evaluate what changes to the current clergy pension arrangements would be worthy of further consideration. The Group is asked to consult with dioceses and other interested parties, reporting via DRACSC and the Archbishops' Council to General Synod in November 2001.

\* member of General Synod

## Appendix 2

# Background Statistics

DIOCESE	A actual <sup>1</sup> clergy in post in 2000	B clergy share <sup>2</sup> 2000	C 16+ Church membership <sup>3</sup> 1999	D 16+ Diocesan Population <sup>4</sup> 1999	E 16+ membership <sup>3</sup> per actual clergy (C/A)	F 16+ membership <sup>3</sup> per clergy share (C/B)	G average personal income <sup>5</sup>	H unrestricted income from donors <sup>6</sup> 1999	I average unrestricted income divided by 16+ membership <sup>3</sup> (H/C) <sup>7</sup>	J as % of personal income (I/G)
1. Bath & Wells	243	227	29,100	685,000	120	128	£ 10,867	£ 7,548,473	£ 259	2.4%
2. Birmingham	205	203	15,700	1,110,900	76	77	£ 8,956	£ 5,894,642	£ 376	4.2%
3. Blackburn	243	229	27,200	1,019,300	112	119	£ 9,481	£ 7,072,235	£ 260	2.7%
4. Bradford	114	118	10,600	510,100	93	90	£ 9,913	£ 3,726,177	£ 353	3.6%
5. Bristol	145	149	15,500	712,600	107	104	£ 10,450	£ 4,800,697	£ 309	3.0%
6. Canterbury	179	172	18,500	670,400	103	107	£ 9,246	£ 5,547,204	£ 300	3.2%
7. Carlisle	154	152	16,200	393,500	105	107	£ 9,602	£ 4,081,496	£ 251	2.6%
8. Chelmsford	421	436	37,600	2,125,000	89	86	£ 10,570	£ 11,586,500	£ 308	2.9%
9. Chester	282	285	35,800	1,254,500	127	126	£ 10,599	£ 9,876,397	£ 276	2.6%
10. Chichester	338	313	43,700	1,231,000	129	140	£ 11,727	£ 10,858,466	£ 249	2.1%
11. Coventry	148	144	15,000	610,800	101	104	£ 10,185	£ 4,029,932	£ 269	2.6%
12. Derby	185	186	17,500	797,100	94	94	£ 9,726	£ 4,855,936	£ 278	2.9%
13. Durham	237	236	19,800	1,178,600	84	84	£ 8,220	£ 5,156,028	£ 260	3.2%
14. Ely	158	154	15,900	521,800	101	104	£ 11,125	£ 4,445,942	£ 279	2.5%
15. Exeter	257	265	27,400	872,400	107	103	£ 8,653	£ 6,870,083	£ 251	2.9%
16. Gloucester	160	158	19,300	480,000	121	122	£ 11,338	£ 5,500,307	£ 285	2.5%
17. Guildford	204	175	23,800	771,300	117	136	£ 15,665	£ 9,964,624	£ 419	2.7%
18. Hereford	115	124	12,400	247,600	108	100	£ 9,850	£ 2,812,698	£ 227	2.3%
19. Leicester	167	166	13,400	711,500	80	81	£ 10,413	£ 5,032,022	£ 375	3.6%
20. Lichfield	355	363	36,900	1,581,100	104	102	£ 9,239	£ 9,710,933	£ 263	2.8%
21. Lincoln	225	242	20,200	754,900	90	83	£ 9,528	£ 4,248,632	£ 211	2.2%
22. Liverpool	256	245	26,000	1,235,000	102	106	£ 8,184	£ 6,456,094	£ 248	3.0%
23. London	557	524	49,000	2,839,300	88	93	£ 13,436	£ 22,462,985	£ 459	3.4%
24. Manchester	295	304	28,500	1,533,700	96	94	£ 8,872	£ 8,020,071	£ 282	3.2%
25. Newcastle	148	160	13,300	630,200	90	83	£ 8,748	£ 3,698,850	£ 278	3.2%
26. Norwich	205	218	20,400	664,400	99	93	£ 9,568	£ 5,465,201	£ 268	2.8%
27. Oxford	446	431	48,100	1,683,400	108	112	£ 13,333	£ 16,650,228	£ 346	2.6%
28. Peterborough	168	168	16,100	607,700	96	96	£ 10,597	£ 4,796,047	£ 298	2.8%
29. Portsmouth	116	125	13,900	575,900	120	111	£ 10,065	£ 3,479,025	£ 250	2.5%
30. Ripon & Leeds	151	156	14,800	631,600	98	95	£ 9,935	£ 4,564,270	£ 309	3.1%
31. Rochester	234	207	24,300	954,300	104	117	£ 11,987	£ 8,753,156	£ 361	3.0%
32. St. Albans	285	294	32,700	1,321,400	115	111	£ 12,729	£ 9,910,967	£ 303	2.4%
33. St. Eds & Ips.	160	171	19,100	477,700	120	112	£ 10,181	£ 5,033,091	£ 263	2.6%
34. Salisbury	225	240	31,700	692,800	141	132	£ 10,860	£ 7,537,088	£ 238	2.2%
35. Sheffield	192	187	16,600	953,900	87	89	£ 8,472	£ 4,899,466	£ 295	3.5%
36. Sodor & Man	20	19	2,000	60,100	101	106	£ 12,786	£ 489,356	£ 243	1.9%
37. Southwark	380	359	34,000	1,918,900	90	95	£ 12,101	£ 13,931,480	£ 410	3.4%
38. Southwell	172	182	15,000	832,500	87	82	£ 9,168	£ 6,202,948	£ 415	4.5%
39. Truro	130	129	13,500	402,700	104	105	£ 8,474	£ 2,829,353	£ 209	2.5%
40. Wakefield	182	177	16,700	856,300	92	95	£ 9,474	£ 4,536,931	£ 271	2.9%
41. Winchester	242	247	31,100	879,900	128	126	£ 11,034	£ 9,015,088	£ 290	2.6%
42. Worcester	154	155	16,000	654,500	104	103	£ 10,088	£ 4,214,148	£ 264	2.6%
43. York	276	295	27,300	1,083,400	99	92	£ 9,486	£ 7,368,846	£ 270	2.8%

### Notes

<sup>1</sup> Average of actual clergy (Jan-Dec) eligible to be counted towards the Clergy Share recorded monthly from the central clergy payroll operated by the Church Commissioners.

<sup>2</sup> 2000 Clergy Share figures from *Statistics of Licenced Ministers* (GS Misc 638) (prepared by Research & Statistics Department using the Clergy Share Formula)

<sup>3</sup> Based on data from *Church Statistics* (GS Misc 641) Parochial Membership and Finance Statistics January - December 1999. Membership is based on 1/3 Electoral Roll and 2/3 Usual Sunday Attendance.

<sup>4</sup> Population figures provided by Research and Statistics Department based on 1999 mid-year estimates from *Key Population and Vital Statistics, Local and Health Authorities*, Office for National Statistics (ONS) © Crown Copyright 2001. However, as government boundaries do not match Diocesan boundaries there has had to be an element of further estimation. Crown copyright material is reproduced under Class Licence Number C01W0000297 with the permission of the Controller of HMSO and the Queen's Printer for Scotland.

<sup>5</sup> Average personal income compiled using data from Inland Revenue Statistics 2000 © Crown Copyright 2001.

<sup>6</sup> Unrestricted Income from Donors based on data from the 1999 Parochial Finance Statistics provided by the Research and Statistics Department.

<sup>7</sup> Whilst the figures in columns C and D have been rounded, the figures in column I were calculated before rounding.

Appendix 3

## 2002 Stipend allocations

Diocese	Clergy Counting	Current Allocation	Current allocation per minister	Option 1* allocation	Option 1 per minister	Actual total allocation for 2002 (capped)	2002 allocation per minister
		£	£	£	£	£	£
1. Bath & Wells	227	-	-	-	-	-	-
2. Birmingham	203	751,000	3,700	1,121,641	5,525	874,847	4,310
3. Blackburn	229	669,000	2,921	-	-	558,890	2,441
4. Bradford	114	767,000	6,728	462,914	4,061	687,849	6,034
5. Bristol	145	-	-	-	-	-	-
6. Canterbury	172	346,000	2,012	325,251	1,891	325,251	1,891
7. Carlisle	152	89,000	586	216,148	1,422	131,486	865
8. Chelmsford	421	244,000	580	1,064,689	2,529	518,227	1,231
9. Chester	282	225,000	798	-	-	103,224	366
10. Chichester	313	-	-	-	-	-	-
11. Coventry	144	7,000	49	-	-	-	-
12. Derby	185	337,000	1,822	567,578	3,068	414,046	2,238
13. Durham	236	1,493,000	6,326	1,726,960	7,318	1,571,176	6,658
14. Ely	154	-	-	-	-	-	-
15. Exeter	257	186,000	724	307,725	1,197	226,674	882
16. Gloucester	158	-	-	-	-	-	-
17. Guildford	175	-	-	-	-	-	-
18. Hereford	115	61,000	530	28,473	248	28,473	248
19. Leicester	166	176,000	1,060	561,115	3,380	304,683	1,835
20. Lichfield	355	1,038,000	2,924	1,082,631	3,050	1,052,913	2,966
21. Lincoln	225	-	-	145,777	648	48,710	216
22. Liverpool	245	1,264,000	5,159	1,074,516	4,386	1,156,706	4,721
23. London	524	749,000	1,429	-	-	638,972	1,219
24. Manchester	295	712,000	2,414	1,105,418	3,747	843,458	2,859
25. Newcastle	148	884,000	5,973	860,257	5,813	860,257	5,813
26. Norwich	205	21,000	102	322,276	1,572	121,669	594
27. Oxford	431	-	-	-	-	-	-
28. Peterborough	168	-	-	741	4	247	1
29. Portsmouth	116	32,000	276	-	-	-	-
30. Ripon & Leeds	151	241,000	1,596	277,619	1,839	253,236	1,677
31. Rochester	207	-	-	-	-	-	-
32. St. Albans	285	56,000	196	-	-	-	-
33. St. Eds & Ips.	160	411,000	2,569	-	-	322,140	2,013
34. Salisbury	225	-	-	-	-	-	-
35. Sheffield	187	736,000	3,936	927,165	4,958	799,876	4,277
36. Sodor & Man	19	-	-	-	-	-	-
37. Southwark	359	648,000	1,805	-	-	386,735	1,077
38. Southwell	172	801,000	4,657	779,823	4,534	779,823	4,534
39. Truro	129	211,000	1,636	444,253	3,444	288,940	2,240
40. Wakefield	177	929,000	5,249	714,767	4,038	832,721	4,705
41. Winchester	242	-	-	-	-	-	-
42. Worcester	154	54,000	351	-	-	-	-
43. York	276	766,000	2,775	786,262	2,849	772,770	2,800
44. Europe	-	-	-	-	-	-	-
<b>Totals</b>	<b>9303</b>	<b>14,904,000</b>		<b>14,904,000</b>		<b>14,904,000</b>	

\*Each diocese's allocation will need to be reassured each year as the underlying data is updated.

## Appendix 4

# Illustration of the effect of recycling transferred cost allocations and guaranteed annuities into selective stipend support

DIOCESE	ministers counting (from 2000)	actual (e) or share figure (s) see note 1	Selective Allocation using Option 1*	PROJECTIONS BASED ON THE NUMBER OF MINISTERS AS SHOWN					
				value of transferred allocation in 2002	Share of £1.8m when allocated**	change from current position	estimated value of GA s and curacy allocations in 2001	share of £4.8m when allocated***	change to current position
1. Bath & Wells	227	s	-	49,679	-	(49,679)	145,952	-	(145,952)
2. Birmingham	203	s	1,121,641	30,389	72,324	41,934	82,784	172,477	89,693
3. Blackburn	229	s	-	44,053	68,169	24,116	107,967	201,858	93,891
4. Bradford	114	a	462,914	19,285	40,615	21,330	59,275	103,252	43,977
5. Bristol	145	a	-	29,009	-	(29,009)	66,943	-	(66,943)
6. Canterbury	172	s	325,251	31,849	61,279	29,430	95,665	158,900	63,235
7. Carlisle	152	s	216,148	25,914	54,154	28,239	92,543	144,424	51,881
8. Chelmsford	421	a	1,064,689	73,730	149,992	76,262	193,576	368,644	175,068
9. Chester	282	a	-	59,097	-	(59,097)	119,612	-	(119,612)
10. Chichester	313	s	-	78,044	-	(78,044)	159,213	-	(159,213)
11. Coventry	144	s	-	28,370	-	(28,370)	81,359	-	(81,359)
12. Derby	185	a	567,578	30,145	65,911	35,766	95,922	167,423	71,501
13. Durham	236	s	1,726,960	31,696	84,081	52,385	109,705	207,247	97,542
14. Ely	154	s	-	29,322	-	(29,322)	94,350	26,358	(67,992)
15. Exeter	257	a	307,725	45,076	91,563	46,487	128,336	230,123	101,787
16. Gloucester	158	s	-	35,542	-	(35,542)	84,369	-	(84,369)
17. Guildford	175	s	-	54,511	-	(54,511)	79,505	-	(79,505)
18. Hereford	115	a	28,473	21,272	40,972	19,700	75,882	112,201	36,319
19. Leicester	166	s	561,115	27,017	59,142	32,125	83,530	148,958	65,428
20. Lichfield	355	a	1,082,631	60,973	126,477	65,504	158,969	308,722	149,753
21. Lincoln	225	a	145,777	37,357	80,162	42,805	144,638	217,610	72,973
22. Liverpool	245	s	1,074,516	41,232	87,287	46,055	108,900	212,656	103,756
23. London	524	s	-	119,240	-	(119,240)	239,559	-	(239,559)
24. Manchester	295	a	1,105,418	47,662	105,101	57,439	230,650	305,818	75,168
25. Newcastle	148	a	860,257	21,479	52,729	31,250	62,687	126,913	64,226
26. Norwich	205	a	322,276	35,372	73,036	37,664	125,130	194,942	69,811
27. Oxford	431	s	-	104,568	-	(104,568)	210,029	-	(210,029)
28. Peterborough	168	s	741	31,052	59,854	28,802	108,333	162,651	54,318
29. Portsmouth	116	a	-	23,575	-	(23,575)	56,892	-	(56,892)
30. Ripon & Leeds	151	a	277,619	25,138	53,797	28,660	76,019	135,516	59,497
31. Rochester	207	s	-	49,400	-	(49,400)	101,145	-	(101,145)
32. St. Albans	285	a	-	63,907	-	(63,907)	132,847	-	(132,847)
33. St. Eds & Ips.	160	a	-	32,786	-	(32,786)	90,605	58,399	(32,206)
34. Salisbury	225	a	-	53,106	-	(53,106)	128,669	-	(128,669)
35. Sheffield	187	s	927,165	28,286	66,623	38,337	75,510	158,508	82,998
36. Sodor & Man	19	s	-	3,723	-	(3,723)	-	-	-
37. Southwark	359	s	-	77,788	-	(77,788)	154,649	-	(154,649)
38. Southwell	172	a	779,823	28,429	61,279	32,850	86,629	154,382	67,753
39. Truro	129	s	444,253	20,140	45,959	25,819	74,541	120,571	46,030
40. Wakefield	177	s	714,767	27,902	63,061	35,159	100,951	164,771	63,821
41. Winchester	242	a	-	54,314	-	(54,314)	107,512	-	(107,512)
42. Worcester	154	a	-	28,244	44,055	15,811	80,670	139,779	59,109
43. York	276	a	786,262	46,279	98,332	52,053	138,614	247,531	108,917
<b>totals</b>	<b>9303</b>		<b>14,904,000</b>	<b>1,805,952</b>	<b>1,805,952</b>	<b>0</b>	<b>4,750,632</b>	<b>4,750,632</b>	<b>0</b>

\* allocation as advised in Sept. 2001 before phasing arrangements

\*\* based on a total allocation of £16,709,952 and before any phasing arrangements

\*\*\* based on a total allocation of £21,460,584 and before any phasing arrangements

### Notes

- Appendix 2 note 1 refers to the actual numbers used and note 2 refers to the Clergy Share.
- All allocations will need to be reassessed each year based on updated base data.

Appendix 5

# Illustration of the effect of recycling retirement housing costs into selective stipend support

PROJECTIONS BASED ON THE NUMBER OF MINISTERS AS SHOWN						
DIOCESE	ministers counting <sup>1</sup>	2,400,000 Value of Pensions Board Housing and admin costs if charged via central apportionment	share of £2.4M*	change	share of £2.4M**	change
1. Bath & Wells	227	66,020	-	(66,020)	-	(66,020)
2. Birmingham	203	40,385	94,841	54,456	88,001	47,615
3. Blackburn	229	58,544	106,989	48,445	99,272	40,728
4. Bradford	114	25,628	53,261	27,632	49,419	23,791
5. Bristol	145	38,551	-	(38,551)	22,833	(15,718)
6. Canterbury	172	42,325	80,358	38,033	74,562	32,237
7. Carlisle	152	34,439	71,014	36,575	65,892	31,454
8. Chelmsford	421	97,982	196,691	98,709	182,504	84,522
9. Chester	282	78,536	-	(78,536)	-	(78,536)
10. Chichester	313	103,716	-	(103,716)	-	(103,716)
11. Coventry	144	37,702	-	(37,702)	-	(37,702)
12. Derby	185	40,061	86,432	46,371	80,198	40,137
13. Durham	236	42,122	110,259	68,137	102,306	60,184
14. Ely	154	38,967	-	(38,967)	66,759	27,792
15. Exeter	257	59,903	120,070	60,167	111,410	51,507
16. Gloucester	158	47,233	-	(47,233)	-	(47,233)
17. Guildford	175	72,442	-	(72,442)	-	(72,442)
18. Hereford	115	28,269	53,728	25,459	49,853	21,584
19. Leicester	166	35,903	77,555	41,652	71,961	36,058
20. Lichfield	355	81,030	165,856	84,826	153,893	72,863
21. Lincoln	225	49,645	105,120	55,475	97,538	47,893
22. Liverpool	245	54,795	114,464	59,668	106,208	51,413
23. London	524	158,462	-	(158,462)	-	(158,462)
24. Manchester	295	63,340	137,824	74,483	127,883	64,543
25. Newcastle	148	28,544	69,145	40,601	64,158	35,614
26. Norwich	205	47,007	95,776	48,769	88,868	41,861
27. Oxford	431	138,964	-	(138,964)	-	(138,964)
28. Peterborough	168	41,267	78,489	37,223	72,828	31,561
29. Portsmouth	116	31,329	-	(31,329)	14,150	(17,179)
30. Ripon & Leeds	151	33,407	70,547	37,140	65,459	32,052
31. Rochester	207	65,650	-	(65,650)	-	(65,650)
32. St. Albans	285	84,929	-	(84,929)	-	(84,929)
33. St. Eds & Ips.	160	43,570	-	(43,570)	69,360	25,790
34. Salisbury	225	70,575	-	(70,575)	-	(70,575)
35. Sheffield	187	37,591	87,366	49,776	81,065	43,474
36. Sodor & Man	19	4,947	-	(4,947)	-	(4,947)
37. Southwark	359	103,375	-	(103,375)	-	(103,375)
38. Southwell	172	37,781	80,358	42,577	74,562	36,782
39. Truro	129	26,765	60,269	33,503	55,922	29,156
40. Wakefield	177	37,080	82,694	45,615	76,730	39,650
41. Winchester	242	72,180	-	(72,180)	-	(72,180)
42. Worcester	154	37,535	71,949	34,414	66,759	29,224
43. York	276	61,502	128,947	67,445	119,646	58,144
total		2,400,000	2,400,000	(0)	2,400,000	(0)

\* share of £2.4M based on total allocation of £19,109,952 (i.e. £14.9+£1.8+£2.4)  
 \*\* share of £2.4M based on total allocation of £23,860,584 (i.e. £14.9 + £1.8+ £4.8 + £2.4)

Notes

- Number of ministers used in the calculation of the 2002 Selective Allocations (see note 1 of Appendix 4).
- All allocations will need to be reassessed each year based on updated base data.

## *Appendix 6*

# Membership and terms of reference of the Clergy Stipends Review Group

## Membership

The Revd Canon Lesley Bentley (Member of the Deployment, Remuneration and Conditions of Service Committee)

Mr Alan King\* (Chairman, Diocesan Board of Finance, Bath and Wells. Member of the Finance Committee and the Deployment, Remuneration and Conditions of Service Committee)

The Ven. Dr John Marsh, Archdeacon of Blackburn\* (Chairman until May 2001)

Ms Hilary Oliver (Financial Consultant, Ernst & Young)

Mr David Phillips (Diocesan Secretary, Chelmsford. Member of the Deployment, Remuneration and Conditions of Service Committee)

The Ven. Robert Reiss\*, Archdeacon of Surrey

Canon Bryan Sandford\* (Member of the Finance Committee and the Deployment, Remuneration and Conditions of Service Committee)

Mr Keith Stevens (Former Director of Group Personnel, Lloyds TSB. Member of the Deployment, Remuneration and Conditions of Service Committee)

The Revd Dr Richard Turnbull\* (Chairman from May 2001. Member of the Finance Committee)

\* = member of General Synod

## *Assessors*

Mr Christopher Daws (Financial and Deputy Secretary, Church Commissioners)

Mr Shaun Farrell (Financial Secretary, Archbishops' Council)

The Ven. Dr Gordon Kuhrt (Director, Ministry Division, Archbishops' Council)

Mr Roger Radford (Secretary, Church of England Pensions Board)

## Terms of reference

- (i) To consider the concept and definition of the stipend;
- (ii) To examine the content of the clergy remuneration package (including retirement provision) and its comparability with remuneration for other groups;
- (iii) To ascertain, through a properly conducted large-scale survey of clergy and consultations with dioceses and charities, the financial circumstances of clergy;
- (iv) To review the size of dignitaries' differentials;
- (v) In conjunction with the Finance Committee, to evaluate the affordability and long-term financial sustainability of the present arrangements and any proposals for change;
- (v) To consider the implications of any proposals for:
  - clergy deployment and partnership between dioceses;
  - future numbers of stipendiary clergy and patterns of ministry;

- (vii) To consider whether the present structure for setting stipends should be retained and outline possible alternative structures;
- (viii) To consult with the Church Commissioners, the Pensions Board and dioceses;
- (ix) To consult with other national Church bodies through the Churches Main Committee and government agencies on matters of fiscal and taxation policy which affect stipends, in particular the treatment of benefits in kind;
- (x) To determine options for wide debate within the Church.

## Appendix 7

# Components of contribution rate

The following table sets out the (approximate) components of the contribution rate, based on assumed stipend increases of 1.0%, and alternatively 1.5%, per annum in excess of price inflation.

	<b>Stipend increases 1% above RPI</b>	<b>Stipend increases 1.5% above RPI</b>
Retirement pension (no increases)	13.4%	14.2%
Lump sum on retirement	3.7%	3.9%
Death after retirement spouse's pension (no increases)	1.5%	1.5%
Death-in-service spouse's pension (no increases)	1.0%	1.0%
Lump sum on death-in-service	1.1%	1.1%
Post-retirement RPI pension increases	4.8%	5.0%
Excess of pension increases over RPI	2.6%	4.3%
Expenses	0.4%	0.4%
Past service deficit	1.0%	1.0%
<b>TOTAL</b>	<b>29.5%</b>	<b>32.4%</b>

*Note: In practice, if the discretionary element of pension increases were removed, the Pensions Board (as Trustee) would be likely to want to adopt an investment strategy weighted more towards bonds in respect of post-retirement liabilities. It may thus be appropriate to assume investment returns of, say, 0.75% p.a. lower after retirement. The effect of this change in the investment return assumption would be a lower reduction in the contribution rate, resulting in contribution rates of 0.7% or 2.2% lower (depending on the stipend assumptions), as set out in the table following paragraph 170 of this report.*

## *Appendix 8*

# Summary of current main scheme benefits

Pension Age	65
Qualifying service for full pension – on retirement at or after pension age	37 years
Full-service pension for clergy, deaconesses and licensed lay workers	Two-thirds national minimum stipend for previous year (£10,380 in 2001/2)
Higher rate of pension	Archbishops, diocesan bishops, suffragan bishops, archdeacons, deans and provosts
Lump sum on retirement	Three times basic rate of pension (no higher rate for dignitaries)
Ill health early retirement	Subject to medical evidence, immediate pension and lump sum allowing for service to age 65
Widow(er)'s pension on death in service or in retirement	Two-thirds of member's prospective pension or pension
Dependent children's pension	One-sixth of member's (prospective) pension for each eligible child (max. one-third in total) to age 18 (or up to 23 if still in full-time education)
Pension increases after commencement	In line with RPI with Board discretion and policy to align with stipend increase the previous year

## Appendix 9

# Main features of teachers' pension scheme

Pension age	60
Qualifying service for full pension	40 years
Full-service pension	Half final salary
Lump sum on retirement	Three times pension
Widow(er)'s pension	50% of member's pension
Pension increases after commencement	In line with RPI
Lump sum on death in service	Twice salary
Members' contribution	6% of salary

The 'full-service' benefits at retirement for someone with a final salary of £36,471 (the scale starting point for a primary school headteacher) would thus be:

Pension	£18,235
plus	
Lump sum	£54,705

## Appendix 10

# Contracting-out

1. The State pension scheme is made up of two parts – basic and earnings related (known as SERPS). From 6 April 2002, SERPS is to be replaced by the new State Second Pension (S2P). The main difference between S2P and SERPS is that S2P will provide a higher pension for those earning less than £23,000 a year in current terms, which includes most clergy. Members of an occupational pension scheme can be contracted out of SERPS/S2P. Members who are contracted out, and their employers, pay reduced national insurance (NI) contributions. In return for this, the members give up their entitlement to benefit accrual under SERPS/S2P. Entitlement to the basic State pension remains in full. The members of the clergy pension scheme are contracted out and, as part of this review, we have been discussing with our actuaries whether it would be in the Church's financial interest to cease to contract out. It should be stressed that this possibility could be pursued regardless of which of the preceding options were followed. This is a good time to consider the issue both because the scheme's level and form of benefits are being reconsidered and because the Government has recently published new levels of national insurance rebates applicable from April 2002.
2. From April 2002, the reduction in employer national insurance contributions will be 3.5 per cent of earnings between the lower and upper earnings limits, which equates to approximately 3 per cent of the pensionable stipend. The corresponding reduction for the employee is 1.6 per cent. A scheme must provide benefits for contracted-out members at least as favourable overall as the benefits under a 'reference scheme'. The current benefits are well in excess of this minimum. Any alternative defined benefit arrangements that were actively being considered would need also to pass this test if the members were to remain contracted out.
3. Preliminary calculations suggest that, if the members were to cease to be contracted out, there could be a significant financial benefit to the Church. If the clergy pension scheme ceased to contract out, both the employer and members would pay increased NI contributions, but members' State benefits would increase by the amount of the S2P. We estimate that the additional NI contributions would amount to £4.5 million p.a. for employers and £2 million p.a. for members. If the scheme benefits were reduced by exactly the increase in the State benefits (which would in practice be very complex to achieve precisely), the employers' contributions to the scheme could be reduced by £8.5 million a year.
4. Thus the employers would save £4 million a year in scheme and NI contributions combined, and overall there would be a saving of £2 million a year, taking account of the additional cost to scheme members. This is principally the result of the older average age of members of the clergy pension scheme compared to the average age assumed by the Government in calculating the NI rebate. Members could be compensated for the additional cost (amounting to around £200 p.a.) while still producing a saving overall to the Church. If clergy were fully compensated for this by an increase in stipend (which would itself be subject to tax and national insurance), the extra stipend and national insurance cost would be £3.2 million, reducing the net saving to £1.2 million a year.
5. We recommend that the option of ceasing to contract out is seriously considered, whichever form and level of scheme benefits are favoured. Inevitably, however, there would be some risks associated with this course, in particular as the Government could make further changes to the level of NI rebates and to the State Second Pension and the savings in contribution to the clergy scheme will vary over time. Our actuaries consider it unlikely, however, that the Government would make contracting-in financially disadvantageous compared to contracting-out and any advantage to individuals in contracting-out is likely to apply only to higher-paid employees, and thus would not apply to the clergy generally. If contracting back in were favoured in principle, more detailed calculations would be commissioned.
6. Ceasing to contract out would need to be communicated carefully and clearly to the clergy, so that the reduction in the level of scheme benefits was not seen as a worsening of the overall retirement provision, including that from the State. The presentation of this would be particularly crucial if other changes were being made to the scheme benefits at the same time.

*Appendix 11*

## Impact of the Clergy Stipends Review Group proposals on pension costs

If aspiration three of the Stipends Review Group report fed directly into the level of pensions, the impact to the Church is estimated to be:

Past service (pre-1998) cost to Church through reduction in Church Commissioners' distributions	£7 million p.a.
Additional future service contributions (in respect of service from 1998 onwards)	£7–7.5 million p.a.
Total cost to the Church	£14–14.5 million p.a.

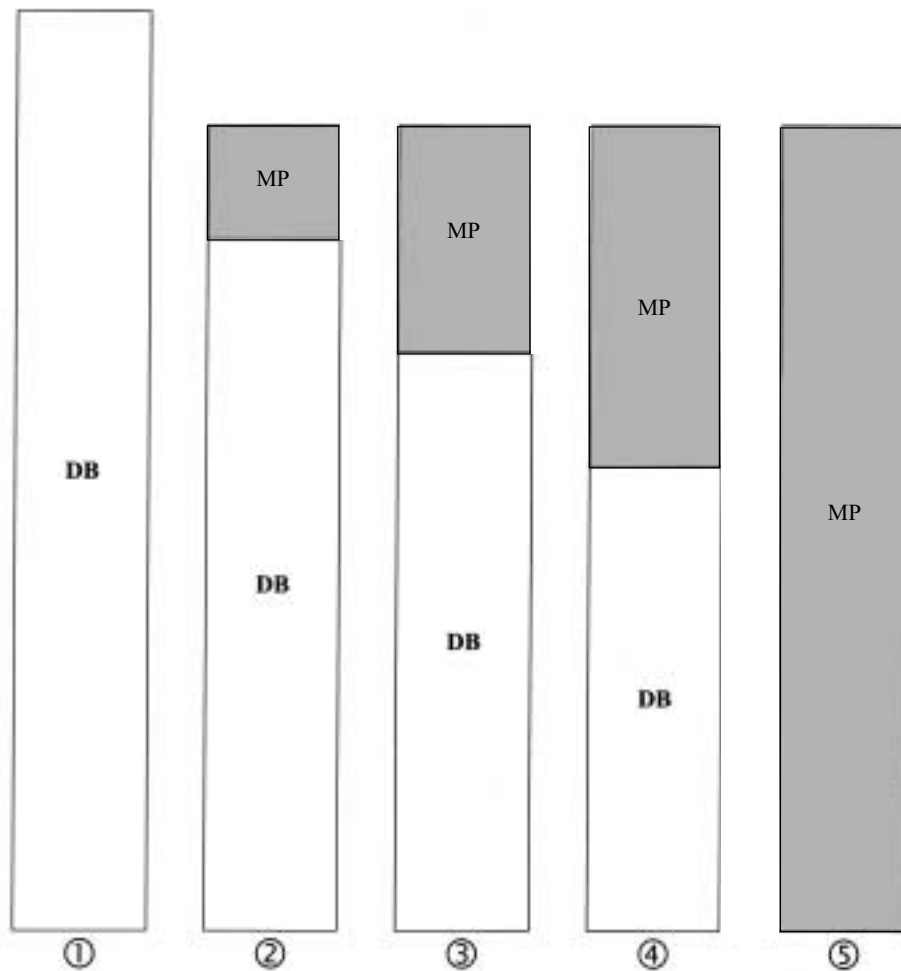
If the Stipends Review Group's third aspiration had already been implemented and the National Stipends Benchmark was 1.1 times the National Minimum Stipend, the National Minimum Stipend for 2001/2 would have been £18,200. This is 13.5 per cent above the level recommended by the Central Stipends Authority. If this had been the case and the link between stipends and pensions (i.e. that the full service clergy pension is set at two-thirds of the previous year's National Minimum Stipend) had been maintained, the Church Commissioners' pension liabilities would have increased by 13.5 per cent from 46.4 per cent of their assets to 52.7 per cent. This would have reduced the amount that the Church Commissioners could have made available for ongoing non-pension purposes from £58.5 million to £51.5 million, i.e. a cost to the Church of £7 million p.a.

It is estimated that the additional contribution to the funded scheme would have amounted to £800 per member for the year 2001/2, or £7–7.5 million p.a. for the Church as a whole. This includes both the impact on contributions for future service and the effect on the liabilities accrued since 1998. The figures quoted on page 135 of *Generosity and Sacrifice* refer only to future service and relate to 2002/3, whereas figures in this report are for 2001/2.

*Appendix 12*

## Diagrammatic comparisons

This representation depicts a range of possibilities from a defined benefit (DB) scheme based on a contribution level of 29.5 per cent (Option 1) to different possible hybrid combinations, with increasing money purchase (MP) elements (Options 2–4), to a money purchase scheme (Option 5). Options 2–5 assume a lower contribution rate (and consequently a lower level of benefits) than Option 1.



Appendix 13

## Comparison of different types of pension scheme

	Defined Benefit	Money Purchase	Hybrid
Fundamental 'concept'	Contribution rate varies as necessary to deliver agreed benefits	Benefits vary according to what can be financed from contributions	Floor of guaranteed benefits; remainder determined by value of contributions
Risk of fluctuations borne by	Employer	Members except to extent that employer decides to vary contribution rate in line with fluctuations	Shared, provided the overall contribution rate can be varied from time to time
Variations in contribution rate determined by	Trustee (Pensions Board)	Employers (Archbishops' Council in consultation with dioceses)	
Level of benefits	Fixed in advance	Determined by value of contributions	Part fixed; part variable
Ill health/death-in-service benefits	Provided within the scheme	Separate provision required (probably by insurance in a common pool)	As for money purchase if MP element were significant proportion
Flexibility	Little scope to vary scheme for individual members	More flexibility	
Averaging-out	Automatic; no individual accounts for scheme members	Required via age-related contributions (and 'with profits')	With-profits and perhaps also age-related contributions required
Cost	29.5% for current benefits, at present (from January 2003)	Any level determined by employers	Any level, provided sufficient to cover defined benefit element

- Notes**
1. Costs include administrative expenses and past service deficit
  2. Contracting-out/in is possible with any option