

CLERGY PENSIONS

TASK GROUP REPORT
SUPPLEMENT

BENEFIT ILLUSTRATIONS

Introduction

This document supplements the Consultation Paper issued by the Clergy Pensions Task Group on 30 June 2009 and should be read in conjunction with that document <http://www.cofe.anglican.org/info/pensions2009/consultation.doc>

It is designed to provide sample illustrations of the impact of the modifications proposed in the consultation document on clergy at different ages and lengths of service and to assist Responsible Bodies in responding to the questions set out in the Task Group report.

By way of reminder, current estimates suggest that the cost of the scheme, in its present form, could rise to around 57% of the pensionable stipend if the financial position of the scheme at 31 December 2009 (when the next formal valuation takes place) is similar to the position as at end of 2008.

For ease of reference, the modifications proposed, in order to bring the cost of the scheme down to an affordable level (currently assumed to be 42%) are:-

- Capping future increases in the pensionable stipend to RPI
- Increasing, for future service, the normal pension age from 65 to 68
- Increasing, for future service, the period required for a full service from 40 to 43 years
- Contracting the pension scheme back into the Second State Pension.

Each illustration is shown on the basis of the 3 options for the future structure of the scheme i.e.

- Option 1** - Retaining the existing defined benefit structure
- Option 2** - Closing the defined benefit scheme to future accrual and introducing defined contribution arrangements for future service
- Option 3** - Introducing a hybrid arrangement with part of the pension coming from a defined benefit scheme and part from a defined contribution arrangement

It should be noted that, as options 2 and 3 include a defined contribution element, the final pension received will be partly dependent on investment market returns during the period of service concerned. For this reason the pension received cannot be guaranteed. Illustrations have been provided on the basis on 3 different rates of investment return i.e. Medium (6% p.a.), High (7.5% p.a.) and Low (4.5% p.a.).

In addition to what is shown here, all pensioners who have made the necessary national insurance contributions will continue to be eligible for the basic state pension which is currently £95.25 per week (£4,953 p.a.)

Each illustration shows for comparison purposes what the pension entitlement would be under the current arrangements unchanged. A key assumption we have to make is the rate at which the pensionable stipend (currently the National Minimum Stipend) increases in the future. Scheme members have no entitlement to any particular level of stipend increase. The NMS is determined annually by the Archbishops' Council consulting with the dioceses. In the illustrations two scenarios are provided. The first assumes that RPI inflation will be 3% each year and the NMS will increase in line with it, the second that NMS increases are at 1.5% above RPI of 3% each year (the current basis on which the pension contribution is calculated by the Pension Board's actuaries). Figures are shown for age 65 (the current normal retirement age) and for age 68.

All the options provide for the pension scheme to be contracted back into the State Second Pension shown in these illustrations as "Additional State Pension".

Four illustrations have been provided to cover a range of different circumstances:-

Example 1 – a clergy person fairly close to retirement (aged 60)

Example 2 – a clergy person (aged 50) in mid-career

Example 3 – a clergy person in the early part of their career (aged 30)

Example 4 – a newly ordained clergy person (aged 45)

The detailed assumptions which underpin these calculations are set out in **Appendix 1**. The figures included in this document are for illustration purposes only and should not be taken by any scheme member as a precise indication of the benefits they might receive.

Any queries relating to these illustrations should be sent to the dedicated Task Group e-mail address below:-

pensionstaskgroup@c-of-e.org.uk

Pensions Task Group
August 2009

Example 1

Ordained at 30 years old, 60 at date of change, 30 years existing service, 5 years potential service to age 65, 8 years to age 68.

State pension age is 65 years exactly.

Existing Pension Scheme (unchanged)		Age 65	Age 68
(a) Pensionable stipend increases in line with RPI	Church pension	£12,173 p.a.	£13,093 p.a.
	Lump Sum	£36,519	£39,280
(b) Pensionable stipend increases in line with RPI +1.5%	Church pension	£13,114 p.a.	£14,749 p.a.
	Lump Sum	£39,342	£44,248

Option 1 – Revised DB Scheme		Age 65	Age 68
	Church pension	£11,473 p.a.	£12,363 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,945 p.a.	£13,011 p.a.
	Lump Sum	£35,560	£38,917

Option 2 – DC Scheme		Age 65	Age 68
(i) Medium investment assumption (6% p.a.)			
	Church pension	£11,402 p.a.	£12,066 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,874 p.a.	£12,714 p.a.
	Lump Sum	£35,560	£38,917
(ii) High investment assumption (7.5% p.a.)			
	Church pension	£11,440 p.a.	£12,181 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,912 p.a.	£12,829 p.a.
	Lump Sum	£35,560	£38,917
(iii) Low investment assumption (4.5% p.a.)			
	Church pension	£11,364 p.a.	£11,959 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,836 p.a.	£12,607 p.a.
	Lump Sum	£35,560	£38,917

Option 3 – Hybrid scheme (part DB, part DC)			
(i) Medium investment assumption (6% p.a.)	Age 65	Age 68	
	Church pension (DB)	£11,005 p.a.	£11,450 p.a.
	Additional Church pension (DC)	£379 p.a.	£685 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,856 p.a.	£12,783 p.a.
	Lump Sum	£35,560	£38,917
(ii) High investment assumption (7.5% p.a.)	Age 65	Age 68	
	Church pension (DB)	£11,005 p.a.	£11,451 p.a.
	Additional Church pension (DC)	£393 p.a.	£726 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,870 p.a.	£12,825 p.a.
	Lump Sum	£35,560	£38,917
(iii) Low investment assumption (4.5% p.a.)	Age 65	Age 68	
	Church pension (DB)	£11,005 p.a.	£11,450 p.a.
	Additional Church pension (DC)	£365p.a.	£646 p.a.
	Additional State pension	£472 p.a.	£648 p.a.
	Total pension	£11,842 p.a.	£12,744 p.a.
	Lump Sum	£35,560	£38,917

Example 2

Ordained at 25 years old, 50 at date of change, 25 years service, with 15 years potential service at 65, 18 years to age 68.

State pension age is 66 years exactly.

Existing Pension Scheme (unchanged)		Age 65	Age 68
(a) Pensionable stipend increases in line with RPI	Church pension	£13,093 p.a.	£13,093 p.a.
	Lump Sum	£36,280	£39,280
(b) Pensionable stipend increases in line with RPI +1.5%	Church pension	£16,369 p.a.	£17,117 p.a.
	Lump Sum	£49,109	£51,352

Option 1 – Revised DB Scheme		Age 65	Age 68
	Church pension	£10,421 p.a.	£11,723 p.a.
	Additional State pension	£1,170 p.a.	£1,600 p.a.
	Total pension	£11,591 p.a.	£13,323 p.a.
	Lump Sum	£37,464	£39,280

Option 2 – DC Scheme		Age 65	Age 68
(i) Medium investment assumption (6% p.a.)			
	Church pension	£11,347 p.a.	£12,329 p.a.
	Additional State pension	£1,170 p.a.	£1,600 p.a.
	Total pension	£12,517 p.a.	£13,929 p.a.
	Lump Sum	£37,464	£39,290
(ii) High investment assumption (7.5% p.a.)			
	Church pension	£11,707 p.a.	£12,940 p.a.
	Additional State pension	£1,170 p.a.	£1,601 p.a.
	Total pension	£12,877 p.a.	£14,541 p.a.
	Lump Sum	£37,464	£39,280
(iii) Low investment assumption (4.5% p.a.)			
	Church pension	£11,031 p.a.	£11,806 p.a.
	Additional State pension	£1,170 p.a.	£1,601 p.a.
	Total pension	£12,201 p.a.	£13,407 p.a.
	Lump Sum	£37,464	£39,280

Option 3 – Hybrid scheme (part DB, part DC)			
(i) Medium investment assumption (6% p.a.)	Age 65	Age 68	
	Church pension (DB)	£9,297 p.a.	£9,667 p.a.
	Additional Church pension (DC)	£1,291 p.a.	£1,752 p.a.
	Additional State pension	£1,170 p.a.	£1,601 p.a.
	Total pension	£11,758 p.a.	£13,020 p.a.
	Lump Sum	£37,464	£39,280
(ii) High investment assumption (7.5% p.a.)	Age 65	Age 68	
	Church pension (DB)	£9,297 p.a.	£9,667 p.a.
	Additional Church pension (DC)	£1,448 p.a.	£2,015 p.a.
	Additional State pension	£1,170 p.a.	£1,601 p.a.
	Total pension	£11,915 p.a.	£13,283 p.a.
	Lump Sum	£37,464	£39,280
(iii) Low investment assumption (4.5% p.a.)	Age 65	Age 68	
	Church pension (DB)	£9,297 p.a.	£9,667 p.a.
	Additional Church pension (DC)	£1,154 p.a.	£1,528 p.a.
	Additional State pension	£1,170 p.a.	£1,601 p.a.
	Total pension	£11,621 p.a.	£12,796 p.a.
	Lump Sum	£37,464	£39,280

Example 3

28 at ordination, now 30 (2 years service at point of change), with 35 years potential service to age 65, 38 years to age 68.

State pension age is 68 years exactly.

Existing Pension Scheme (unchanged)		Age 65	Age 68
(a) Pensionable stipend increases in line with RPI	Church pension	£12,111 p.a.	£13,093 p.a.
	Lump Sum	£36,334	£39,280
(b) Pensionable stipend increases in line with RPI +1.5%	Church pension	£20,394 p.a.	£23,054 p.a.
	Lump Sum	£61,182	£69,164

Option 1 – Revised DB Scheme		Age 65	Age 68
Church pension Additional State pension Total pension	Church pension	£7,208 p.a.	£9,333 p.a.
	Additional State pension	£2,926 p.a.	£3,806 p.a.
	Total pension	£10,134 p.a.	£13,139 p.a.
Lump Sum		£29,619	£36,676

Option 2 – DC Scheme		Age 65	Age 68
(i) Medium investment assumption (6% p.a.)			
Church pension Additional State pension Total pension	Church pension	£7,014 p.a.	£8,516 p.a.
	Additional State pension	£2,926 p.a.	£3,806 p.a.
	Total pension	£9,940 p.a.	£12,322 p.a.
Lump Sum		£29,619	£36,676
(ii) High investment assumption (7.5% p.a.)			
Church pension Additional State pension Total pension	Church pension	£9,336 p.a.	£11,748 p.a.
	Additional State pension	£2,926 p.a.	£3,806 p.a.
	Total pension	£12,262 p.a.	£15,554 p.a.
Lump Sum		£29,619	£36,676
(iii) Low investment assumption (4.5% p.a.)			
Church pension Additional State pension Total pension	Church pension	£5,337 p.a.	£6,250 p.a.
	Additional State pension	£2,926 p.a.	£3,806 p.a.
	Total pension	£8,263 p.a.	£10,056 p.a.
Lump Sum		£29,619	£36,676

Option 3 – Hybrid scheme (part DB, part DC)			
(i) Medium investment assumption(6% p.a.)			
		Age 65	Age 68
	Church pension (DB)	£3,932 p.a.	£4,994 p.a.
	Additional Church pension (DC)	£3,444 p.a.	£4,259 p.a.
	Additional State pension	£2,925 p.a.	£3,806 p.a.
	Total pension	£10,301 p.a.	£13,059 p.a.
	Lump Sum	£29,619	£36,676
(ii) High investment assumption (7.5% p.a.)			
		Age 65	Age 68
	Church pension (DB)	£3,932 p.a.	£4,994 p.a.
	Additional Church pension (DC)	£4,559 p.a.	£5,801 p.a.
	Additional State pension	£2,925 p.a.	£3,806 p.a.
	Total Pension	£11,416 p.a.	£14,601 p.a.
	Lump Sum	£29,619	£36,676
(iii) Low investment assumption (4.5% p.a.)			
		Age 65	Age 68
	Church pension (DB)	£3,932 p.a.	£4,994 p.a.
	Additional Church pension (DC)	£2,644 p.a.	£3,187 p.a.
	Additional State pension	£2,925 p.a.	£3,806 p.a.
	Total pension	£9,501 p.a.	£11,987 p.a.
	Lump Sum	£29,619	£36,676

Example 4

New entrant, 45 years old at 1st January 2011, with 20 years potential service to 65, 23 years to age 68.

State Pension Age is 66 years exactly.

Existing Pension Scheme (unchanged)		Age 65	Age 68
(a) Pensionable stipend increases in line with RPI	Church pension	£6,546 p.a.	£7,528 p.a.
	Lump Sum	£19,640	£22,586
(b) Pensionable stipend increases in line with RPI +1.5%	Church pension	£8,817 p.a.	£10,603 p.a.
	Lump Sum	£26,452	£31,809

Option 1 – Revised DB Scheme		Age 65	Age 68
	Church pension	£3,745 p.a.	£5,252 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£5,401 p.a.	£7,478 p.a.
	Lump Sum	£15,803	£21,010

Option 2 – DC Scheme		Age 65	Age 68
(i) Medium investment assumption (6% p.a.)			
	Church pension	£3,428 p.a.	£4,486 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£5,084 p.a.	£6,712 p.a.
	Lump Sum	£15,803	£21,010
(ii) High investment assumption (7.5% p.a.)			
	Church pension	£4,080 p.a.	£5,507 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£5,736 p.a.	£7,733 p.a.
	Lump Sum	£15,803	£21,010
(iii) Low investment assumption (4.5% p.a.)			
	Church pension	£2,882 p.a.	£3,654 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£4,538 p.a.	£5,880 p.a.
	Lump Sum	£15,803	£21,010

Option 3 – Hybrid scheme (part DB, part DC)			
(i) Medium investment assumption (6% p.a.)	Age 65	Age 68	
	Church pension (DB)	£1,872 p.a.	£2,626 p.a.
	Additional Church pension (DC)	£1,771 p.a.	£2,311 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£5,299 p.a.	£7,163 p.a.
	Lump Sum	£15,803	£21,010
(ii) High investment assumption (7.5% p.a.)	Age 65	Age 68	
	Church pension (DB)	£1,872 p.a.	£2,626 p.a.
	Additional Church pension (DC)	£2,064 p.a.	£2,765 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£5,592 p.a.	£7,617 p.a.
	Lump Sum	£15,803	£21,010
(iii) Low investment assumption (4.5% p.a.)	Age 65	Age 68	
	Church pension (DB)	£1,872 p.a.	£2,626 p.a.
	Additional Church pension (DC)	£1,526 p.a.	£1,943 p.a.
	Additional State pension	£1,656 p.a.	£2,226 p.a.
	Total pension	£5,054 p.a.	£6,795 p.a.
	Lump Sum	£15,803	£21,010

Annex 1

Detailed assumptions

1. All amounts shown are in today's money terms i.e. the projected pensions at retirement have been 'rolled back' to the current date at the assumed rate of inflation (3%). These illustrations which assume that pensionable stipends increase by an average of 1.5% above RPI do therefore show pensions and lump sums which, even in today's money terms, are considerably higher than present levels.
2. The additional (second) State pension is payable from State Pension Age. For younger members this is likely to be higher than age 65.
3. The current pensionable stipend is £19,640 p.a.
4. Benefits payable at 68 but which are taken at 65 have been reduced for early payment by the current early retirement factor.
5. The pensions available from the defined contribution elements of options 2 and 3 are not guaranteed; they will depend on the investment returns achieved up to retirement and the annuity terms available when a member retires.
6. The defined contribution benefits have been converted into pension at retirement using a discount rate commonly used in the annuity market. The pension benefits then payable are assumed to rise annually in line with RPI up to 2.5% p.a. (the commonly available option).
7. To provide a consistent and simple basis of comparison, the lump sum illustrations in options 1 - 3 are based on what would be payable under the current defined benefit scheme as modified (option 1). In practice under options 2 and 3 retiring clergy would be able to exercise some choice over the amount of lump sum taken; the smaller the lump sum taken, the larger the continuing pension.
8. The additional State second pension is assumed to increase at 4.5% p.a. in line with current Government policy (which is that increases should be linked to average earnings).