

Church of Ireland Pensions Board – Report 2010

THE CHURCH OF IRELAND PENSIONS BOARD
REPORT FOR THE YEAR 2009

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**REPORT TO THE GENERAL SYNOD 2010
AND FINANCIAL STATEMENTS FOR THE YEAR 2009**

Members/Meetings of the Board

There were (6) meetings of the Board in 2009.

Elected by the House of Bishops

Most Rev Dr JRW Neill	(6)
Right Rev WP Colton	(2)

Elected by the General Synod

Ven DS McLean	(5)
Mr WT Morrow (retired April 2009)	(3)
Canon Lady Sheil	(6)
Rev ECJ Woods	(5)
Mr LV Johnston	(4)
Mr W Oliver (elected June 2009)	(2)

Elected by The Representative Church Body

Mrs JM Peters	(4)
Mr RP Willis	(4)
Mr TH Forsyth	(5)
Mr DG Perrin	(5)
Rev FJ McDowell	(6)

Chairperson – Canon Lady Sheil

Vice-Chairperson – Mr TH Forsyth

Honorary Secretary – Ven DS McLean

Honorary Consultant – Canon JLB Deane

Trustee – The Representative Church Body

Actuarial Advisers – Mercer (Ireland)

Investment Managers – Irish Life Investment Managers

Assistant Secretary – Mr PM Talbot

Pensions and Welfare Officer – Mr PG Connor

Grants Committee

Canon Lady Sheil	Ven DS McLean	Mr LV Johnston
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**REPORT OF THE BOARD OF THE CHURCH OF IRELAND
CLERGY PENSIONS FUND TO THE GENERAL SYNOD**

EXECUTIVE SUMMARY FOR THE YEAR 2009

- **Triennial Actuarial Valuation** – this valuation as at 30 September 2009 showed an actuarial deficit under the Minimum Funding Standard of €43m (section 11).
- **Actuarial Certificate** – the Actuary wrote to the Trustee to indicate that he is not satisfied that the current funding proposal remains on track to meet the Minimum Funding Standard by 30 September 2011. The Trustee will have to submit a revised funding proposal plan to An Bord Pinsean to eliminate the deficit under the Minimum Funding Standard (section 11 and Appendix C).
- **Overview of Return on Fund** – the total return on the Fund for the year ended 31 December 2009 was 24.7% (2008, -34.6%). The main portion of the Fund is managed passively by Irish Life Investment Managers through the use of three equity and two bond indices benchmarks.
- **New Funding Proposal to fund the deficit** – the Representative Church Body as Trustee will be submitting a proposal to fund the substantial deficit in the Fund by way of proposed increased contributions to the Fund of capital injections from the RCB and proposed increases in the annual contribution rate for members and dioceses/parishes over a ten year period to 2019. This Funding Proposal will be brought in the first instance to the General Synod 2010 for approval (section 11).
- **Working Group reviewing legal issues** – the Working Group of representatives of the RCB Executive Committee and of the Board which was established to review issues concerning compliance and other statutory legal requirements has submitted its proposals which are summarised in section 13.
- **Proposed revised Chapter XIV** – as brought forward by the Working Groups on legal issues and solvency of the Fund.

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1. INTRODUCTION

The Church of Ireland Pensions Board administers the Church of Ireland Pensions Fund of which The Representative Church Body is the Trustee. The Board is elected triennially.

The powers and duties of the Board are, in the main, to administer the system of contributions and benefits in accordance with the principle that a proper actuarial relationship shall be maintained between the contributions payable to, and the benefits paid out of, the Fund. The Board is required to report annually to the General Synod and to ensure that the Fund is revalued at intervals of not more than three years and to report on such valuations to the General Synod.

The Board may determine, on the advice of the actuary and with the approval of the Representative Body, increases in pensions in the course of payment.

2. MEMBERSHIP OF THE BOARD

The Board expressed its thanks and appreciation to Mr WT Morrow, who retired during the year, for all his work on the Board and as a member of the Grants Committee.

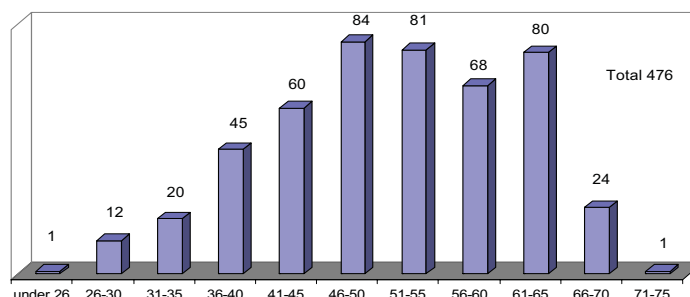
The Board welcomed Mr W Oliver following his appointment by the Standing Committee.

3 MEMBERSHIP OF THE FUND

Contributing members 1 January 2009		480	
Additions:	Newly ordained clergy	12	
	Clergy who re-entered service	2	
	Clergy who entered service from other Churches	6	
	Clergy who entered service from other posts	1	
	Transfer from Non-Stipendiary Ministry	2	
			<hr/>
			503
Deductions:	Clergy retired on pension	13	
	Clergy who died in service	0	
	Clergy who left service with entitlement to deferred benefits	13	
	Clergy who left service and transferred their benefits to another fund	1	(27)
			<hr/>
Contributing members 31 December 2009			476
			<hr/>

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Age distribution of members



Age	under 26	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	71-75	Total
Clergy	1	12	20	45	60	84	81	68	80	24	1	476

There are six clergy in the full time stipendiary ministry who are not members of the Fund having been granted exemption on entering service and there is one who elected to leave the Fund and make independent pension arrangements.

4. PENSIONERS

(a) Retired Clergy

Retired clergy on pension 1 January 2009	255
Add: Retirements during the year	13
Add: Deferred, became payable during the year	4
Deduct: Ceased on death during the year	(15)
Retired clergy on pension 31 December 2009	<u>257</u>

(b) Surviving Spouses of Clergy

Surviving spouses on pension 1 January 2009	219
Add: Commenced during the year	11
Deduct: Ceased on death during the year	(11)
Surviving spouses on pension 31 December 2009	<u>219</u>

(Note: The total of 219 includes 21 widows of members who either retired or died before 1976 and 13 widows of voluntary members (see section 7)

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(c) Children

Child Dependency Allowances 1 January 2009	6
Add: Commenced during the year	0
Deduct: Ceased during the year	(0)
Child Dependency Allowances 31 December 2009	<u>6</u>

5. PENSIONS IN PAYMENT

The annual rate of pensions etc in payment at 1 January 2010 are:

	€		£
Clergy	1,651,439	and	2,029,857
Surviving spouses and orphans	1,405,681	and	1,029,846
	<u>3,057,120</u>	and	<u>3,059,703</u>

6. DEFERRED PENSIONS

There are 91 clergy with entitlement to deferred benefits as at 31 December 2009.

7. PENSIONS IN PAYMENT

Under the provisions of the Fund, pensions in payment at the end of each year may be increased on the following 1 January. The amount of any increase will be the percentage required by law, or such greater percentage up to 5%, as the Board on the advice of the actuary and with the approval of The Representative Church Body may determine.

In recent years, pensions in payment on 1 January each year were increased by the preceding September's annualised rate of inflation in each jurisdiction (up to a maximum of 5%) except for those being paid to widows of voluntary members¹. However, pensions in payment on 31 December 2009 were not increased on 1 January 2010 as the September annualised inflation rate in each jurisdiction (Northern Ireland and the Republic) was in negative territory.

¹ A voluntary member is a member of the former Widows and Orphans Fund who remained a contributing member of that Fund following the inception of the Clergy Pensions Fund on 1 January 1976.

8. LUMP SUM BENEFITS

Under the provisions of the Fund a cash lump sum is payable in a number of eventualities. The following is a summary:

On death in service or within 5 years following retirement;

On retirement before reaching Normal Retirement Age² (NRA), individual members may elect to commute part of their pension;

On reaching NRA individual members may elect to commute part of their pension, whether or not they actually retire (applies to Republic of Ireland members only);

On retirement after reaching NRA, individual members may elect to commute part of their pension if, on reaching NRA, they had decided to defer a decision until their actual retirement;

On deferred pension entitlement becoming payable.

During 2009 lump sums totalling €79,833 and £148,810 became payable under the above headings in respect of 9 members as follows:

Died in service (0); died within 5 years following retirement (2); paid before NRA (2); paid at NRA (0); paid on retirement (2); deferred pension (3).

9. EXPLANATORY BOOKLET

The Explanatory Booklet, designed to give a broad outline of the Fund and the benefits provided, is available on request from the Assistant Secretary.

The latest revision in 2008 (with the subsequent inclusion of updated contribution rates for 2010) incorporates recent changes in pensions legislation and regulations together with ‘best practice’ and is forwarded to each new member. A copy is also available to any member on request to the Assistant Secretary.

10. INTERNAL DISPUTE RESOLUTION (IDR)

As required under pensions legislation the Board and the Trustee have put an Internal Dispute Resolution Procedure in place. A copy of the IDR Procedure may be obtained on request from the Assistant Secretary (Appendix A).

² Those members who were in the Fund on or before 31 December 2008 have a normal retirement age of 65. Normal retirement age for members, including deferred members who re-entered the Fund, on or after 1 January 2009, is 67.

11. TRIENNIAL ACTUARIAL VALUATION, FUNDING PROPOSAL AND CONTRIBUTIONS

Current funding proposal with An Bord Pinsean – at 31 December 2008 the actuary reported in his Actuarial Certificate (appendix to the Report of the Board last year) that he was not satisfied that the Funding Proposal agreed with An Bord Pinsean was on track in order to restore the solvency level of the Fund to 100% by 30 September 2011. The Board reported that in view of the content of the Actuarial Certificate at December 2008 and the anticipated outcome of the Triennial Actuarial Valuation of the Fund at 30 September 2009, a new Funding Proposal will have to be submitted to An Bord Pinsean for their agreement.

The Representative Church Body, as Trustee, in conjunction with the Board, outlined details of a new Funding Proposal to the General Synod 2009. In an initial move to fund the Scheme, a Bill was brought to General Synod in May 2009 to increase the aggregate member and diocese/parish annual contribution rate to 26% (from the then 22.4%) with effect from 1 January 2010, the increase divided between members 2% and dioceses/parishes 1.6%.

Triennial Actuarial Valuation – the actuary reported to the Board (and separately to the RCB Executive Committee) in November on the preliminary results of the triennial actuarial valuation as at 30 September 2009. As anticipated, the Fund is in deficit with a Minimum Funding Standard (MFS) shortfall of some €43m. This deficit has arisen mainly as a result of the collapse in asset values across global markets and the increase in life expectancy of the members of the Fund.

See section 12 for the Actuarial Funding Certificate as at 30 September 2009 (dated 17 December 2009) and the Actuarial Certificate as at 31 December 2009 (dated February 2010).

New Funding Proposal required – following receipt of the actuarial certificate at 31 December 2008 and the result of the recent triennial actuarial valuation, the Board has considered in detail and supports a new Funding Proposal which has been developed by the RCB Executive Committee to address the MFS deficit in the Scheme. This new Funding Proposal was anticipated and reported in broad terms last year to General Synod.

The Funding Proposal, the background to which is explained in some detail in the Report of the Representative Body on page 42, incorporates the following key elements:

- capital transfers of €5m per annum for five years from central funds;
- increased annual contribution rates of dioceses/parishes and members from 26% to 30% with the possibility of a further increase in 2015 to 34%;

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- basing pensions for the duration of the Funding Proposal (that is up to 2019) on Final Pensionable Stipend. It is proposed that while Pensionable Stipend will remain equal to the 2010 level of Minimum Approved Stipend (MAS), it may be increased thereafter by an amount which is somewhat less than inflation.

The Funding Proposal will have to be submitted to An Bord Pinsean by the autumn of 2010 for approval by that body before by 31 December 2010.

Contribution Rate – the annual total contribution rate (which is made up of a contribution to meet the deficit in respect of past service and to meet future service funding) is currently 34.2% of Minimum Approved Stipend. This figure is made up of:

<u>Rate</u>	<u>Source</u>
7.6%	Members
18.4%	Dioceses/Parishes
<u>8.2%</u>	Central Funds (RCB) (<i>see section 'Contribution from central funds for 2010' below</i>)
34.2%	Total

A component of the Funding Proposal is that the combined contribution rate for Members and Dioceses/Parishes be increased to 30% with effect from 1 January 2011.

The Board recommends that the Member contribution be increased by 1.4% and the Dioceses/Parishes contribution be increased by 2.6%.

Accordingly, following approval of this year's Bill, contribution rates from 1 January 2011 for members and dioceses/parishes would be:

<u>Rate</u>	<u>Source</u>
9%	Members
21%	Dioceses/Parishes

Contribution from central funds for 2010 – based on the contribution rate of 8.2%, the transfer from central funds (€559,986 and £511,786 – equivalent to €1,136,257 in 2010) is included in the recommendations to the General Synod for allocation from the Income and Expenditure Account of the Representative Church Body (see page 19). This allocation is calculated on the formula in Section 38 of Chapter XIV and formed part of the increased contribution level to enable the Board and the Trustee to meet its statutory obligations under the Pensions Act and meet the Minimum Funding Standard by 30 September 2011.

As reported to last year's General Synod the Representative Body has committed to paying a sum of €5m into the Fund during 2010. As set out in the Funding Proposal

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it is proposed that a further €20m of capital from central funds be paid into the Fund over the next four years (up to and including 2014).

12. ACTUARIAL FUNDING CERTIFICATE AND ACTUARIAL CERTIFICATE

The Actuarial Funding Certificate as at 30 September 2009 (dated 17 December 2009) and the Actuarial Certificate as at 31 December 2009 (dated February 2010) are included as Appendix B and Appendix C respectively to this report.

13. WORKING GROUP REVIEWING THE LEGAL ISSUES OF THE FUND

In 2008, it was reported that a small Working Group made up of members of the RCB Executive Committee and of the Board had been set up to review issues concerning how the Fund complied with the legal requirements imposed on pension funds.

At last year's Synod, while the work of the group was not yet complete, the Board and the RCB Executive Committee reported on progress to-date.

The Members of the General Synod will recall that legal advice had identified that various elements of Chapter XIV of the Constitution do not currently comply with Irish pension legislation and had questioned the current governance structure relating to the Clergy Pensions Fund. Accordingly it is proposed that a special purpose corporate trustee (The Church of Ireland Clergy Pensions Trustee Limited) be established. Its sole responsibility will be to discharge the responsibility of the Trust Deed and Rules of the Fund. This trustee company will be controlled by the RCB as its parent and by the Synod in relation to any changes to its constitution.

As the corporate trustee company will not have the capacity to discharge directly a range of its duties as prescribed by legislation, it will have the power to delegate many of these duties to committees or bodies, e.g. to the RCB Investment Committee in relation to investments and to the Clergy Pensions Board a range of duties which are largely those presently undertaken by it. However, as is required by law, the ultimate responsibility for all of these duties will remain with the corporate trustee and the corporate trustee will appoint the actuary to the Fund.

Chapter XIV will remain the constitutional document which will govern the Fund. A Bill will be brought to this year's General Synod and the Explanatory Memorandum will highlight the proposed changes to Chapter XIV.

The main changes proposed by the Working Group on legal issues are:

- (i) New corporate trustee company (with its own Memorandum and Articles of Association) to conform with statutory pensions legislation.
- (ii) The corporate trustee will have five directors who will be appointed by the RCB. Two of these directors will be appointed from nominations of the Board while three will be from nominations by the RCB Executive Committee.

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- (iii) The powers and duties of the Board and the Trustee in relation to the Fund have been clarified in order to conform with pensions legislation.
- (iv) As Early and Late Retirement rates are a result of the assumptions adopted in an actuarial valuation, these detailed tables are not set out in Chapter XIV but will be published in the Explanatory Booklet. If there is to be any alteration in the figures resulting from changes in the actuarial calculations then the General Synod would be advised of such changes and they would be included in a revised Explanatory Booklet (*see section 9*).
- (v) The calculations for episcopal contributions will conform to those of all members of the Fund i.e. based on pensionable episcopal stipend. Pensions for Bishops appointed on or after 1 January 2011 will be based on actual service to credit in the Fund and pensionable episcopal stipend on reaching normal retirement age.

In addition two further changes are necessitated by the Funding Proposal of the RCB Executive Committee to restore the solvency of the Fund;

- (vi) The basis on which pensions are calculated until 2019 will be ‘Pensionable Stipend’ rather than ‘Minimum Approved Stipend’. Pensionable Stipend is defined in draft Section 2 of the revised Chapter XIV as the figure approved annually by the General Synod on the recommendation of the Trustee and the Representative Church Body, having regard to the financial status of the Fund and having received actuarial advice, and shall not be a figure lower than that for the previous year.
- (vii) An increase in the rates of contribution to be made to the Fund by members of the Fund and by dioceses with effect from 1 January 2011 is proposed and these proposed increases are set out in draft sections 34 and 35 of the Bill. Because a further increase in the rates of contribution in 2015 may be needed, provision for this is included in draft Section 34A, *but this would not become effective before 1 January 2015*.

An overview of the changes proposed to Chapter XIV may be found in Appendices I and J to the Report of the Representative Body and in the Explanatory Memorandum of the Bill.

14. EXTERNAL CONTACTS FOR INFORMATION AND SUPPORT

The Board has compiled a guide towards external sources of information and help to assist chaplains who support retired clergy and surviving spouses. A copy of the guide is available on request from the Assistant Secretary.

15. ADDITIONAL PERSONAL CONTRIBUTIONS (APCs)

Members who will not have completed 40 years of service on reaching 65 or 67 years of age, as the case may, will not qualify for a full pension. However, subject to limitations contained in civil legislation, such members may purchase additional service by making APCs either by monthly deduction, or by the payment of a lump

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sum, or by a combination of the two. These contributions qualify for full income tax relief at the highest rate payable by the contributor.

At present 101 members have made, or are making, contributions to the APC Scheme.

Copies of the Regulations and explanatory memorandum in relation to APCs may be obtained on request from the Assistant Secretary.

16. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Members are permitted to make voluntary contributions which are invested with the Standard Life Assurance Company to provide additional benefits within the overall limits allowed by the Revenue authorities (see pages 192 and 193.)

17. FINANCIAL STATEMENTS

The Financial Statements of the Clergy Pensions Fund are set out in the following pages.

Note: The formal Financial Statements are expressed in euro for technical reasons. The Accounts of the Northern Ireland subdivision of the Fund are maintained in sterling in which currency the contributions and benefits are also paid. Since the formal Accounts are presented in euro only, changes in the relationship between euro and sterling, and the *realised* and *unrealised* gains or losses which occur as between one year and another may give a misleading impression of the comparative figures.

The following schedule illustrates the equivalent figures in sterling for contributions and benefits in relation to the Northern Ireland subdivision for 2009 and 2008 as shown in the Financial Statements. It is hoped that this schedule will be helpful in studying the accounts.

	2009 £'000	2008 £'000
Contributions		
- Members - normal	350	360
- additional personal	51	49
- Dioceses	1,075	1,137
Representative Church Body	511	495
Pensions to Retired Clergy and Bishops	2,025	1,868
Pensions to surviving spouses and orphans	1,024	1,000
Commutation of pensions	114	255
Death benefits	93	132

18. RESOLUTION RECOMMENDED TO THE GENERAL SYNOD

The Church of Ireland Pensions Board recommends that the following resolution be adopted by the General Synod:

‘That the Report of the Church of Ireland Pensions Board be received and adopted’.