GENERAL SYNOD 2010

EMBARGOED UNTIL DELIVERY

CHECK AGAINST DELIVERY

Bill No 1
(at the request of the Representative Church Body and the Church of Ireland Pensions Board)
To revise, amend and replace Chapter XIV of the Constitution
THE CHURCH OF IRELAND CLERGY PENSIONS FUND
Proposed by the Most Revd Dr John Neill, Archbishop of Dublin & Glendalough

Pensions are very much on the national and international agenda these days, and it comes as no surprise that the whole issue has absorbed much time in both the Representative Body and the Clergy Pensions Board. The Bill before you today is one of the most detailed pieces of work laid before the General Synod for a considerable time. The background to the Bill is found not only in the very full Explanatory Memorandum, but also in the Reports of the Representative Church Body and the Report of the Clergy Pensions Board.

The rewriting of much of Chapter XIV of the Constitution relates to two major issues – the first being the Trusteeship of the Pension Fund as required by civil law in relation to pensions, which law itself has been evolving, and the second in relation to the solvency of the Fund. A third aspect identified for revision is that of Episcopal pensions. I shall leave the Trusteeship issues to the Seconder of the Bill, Mr. Geoffrey Perrin and I shall deal specifically with the other two aspects.

To some the Clergy Pension arrangements seem very generous, and even more so in a time of recession, and the clergy themselves constantly express gratitude for these provisions. At a time when many Defined Benefit Pension schemes, that is those based on a final salary, are under pressure, the clergy pension scheme appears very attractive. However what is easily forgotten is that clergy stipends do not rise with years of service as do pay scales in other professions, and the pension has been based strictly on the minimum approved stipend. This coupled to the issue of tied housing throughout most of the span of ordained ministry also puts pressure on retiring clergy.

In this context the fact is that the Triennial Actuarial Valuation of the Pension Fund revealed a deficit in accordance with the Minimum Funding Standard of €43 million. This standard is based on the cost were the fund to be closed forthwith, but it must be observed by all Pension Funds. *An Bord Pinsean* – which is the State Pension Board in the Republic of Ireland to which the Clergy Pension Fund is accountable – requires that a funding proposal be put in place to assure the solvency of the Fund and that it will be in a position to meet its liabilities – that is pensions in payment and the accrued pension rights of the current members. If the Fund were to close today, that €43 million must be found by the Representative Body. A proposal to restore this solvency within a ten year period from 2009 means that in fact the extra funding required is €55 million and not €43 million.

This Bill has to include certain aspects of the Funding proposal, both because of our own regulations and accountability to General Synod, but also a real commitment to the Funding Proposal being put to *An Bord Pinsean*.

The Funding Proposal and the consequent measures in this Bill are based on sound principles. I will list them:

(a) That the Church of Ireland should do all in its power to maintain the Defined Benefit Scheme for its clergy.
(b) That there should be room for some increase in pensions in payment across the ten year period of the Funding Proposal, even though this will increase the total funding required by about €5 million (beyond the €55 million mentioned already). Actually there is some small statutory increase required by law in the case of UK Pensions in payment and that was built into the lower figure. However not only was the UK requirement very limited, but as different provision in each

jurisdiction could prove detrimental to the free movement of clergy between the two political jurisdictions on the island, further provision was necessary. Without such provision, the value of pensions in payment over the ten years would be seriously eroded.

(c) That the cost of the Funding Proposal should be a shared cost in some real measure – between the RCB, the members, that is the clergy, the pensioners and the parishes or dioceses.

(d) That though it would be desirable to bring the NRA, Normal Retirement Age, slightly upwards across the next few years in line with the NRA for the State Old Age Pension in both jurisdictions, and indeed as is already the case for new entrants to the Clergy Pension Fund, this could not be done in time for the Funding Proposal. The UK members have to be consulted in advance, and this would take time. However such a change must remain on the agenda for another time.

To those principles listed just now, there should also be mentioned by way of context, that the Representative Church Body, the origin of which as set out in its Trust Deed is the sustentation of the clergy, has already decided that it will bear a very substantial part of the liability for the funding of the proposal. You will have seen from the RCB Report that the Representative Body is to transfer large amounts of capital into the Clergy Pension Fund across the next five years. This will be offset, only to some extent, by the fact that the annual subventions from the RCB will reduce and it is hoped after five years disappear. The Clergy Pension Fund should by 2015 have sufficient income from capital to replace these subventions from the RCB.

The other context in which the actual proposals of the Bill are to be understood is that pensions in payment will after 2011 be likely to increase but at a rate slightly below the Consumer Price Index. This is part of the "shared pain" of which I spoke – that of the RCB and of Pensions in payment – but the Bill itself relates to the consequences for the members and for the parishes and/or dioceses.

We turn now to the provisions of the Bill in respect of what I have attempted to explain. First we must turn to the definitions near to the top of page 10 – and this is the concept of <u>Pensionable Stipend</u>. The defined benefit payable on retirement at present is based on the Minimum Approved Stipend when the member reaches the age of 65 years. The implication of this has been to create difficulty from time to time for increases in stipend, but much more important now, stipend increases in the future could have a detrimental effect on the Funding Proposal. Though this pensionable stipend is frozen for 2011, in line with the proposed Minimum Approved Stipend, it may diverge in years to come, but it will not reduce and this is built into the Bill. The concept of a pensionable salary has been introduced as a significant measure in relation to a number of defined benefit schemes. A legal opinion was sought as to the rectitude of this and it was approved on the basis that *"In future, pension benefit will accrue by reference to service and "pensionable stipend" which will be an amount different to "Minimum Approved Stipend".*

The Second group of measures of significance to the cost of saving the Pension Fund comes on pages 16 and 17 – Sections 34 and 35 of the Bill. Even though the 2010 levels of contribution are higher than those in 2009, the overall contributions from clergy and parishes or dioceses must increase from 26% of Minimum Approved Stipend to 30% in January 2011. The Bill includes in Section 35 a breakdown of this as being 9% to be contributed by the members – the clergy, and 21% by the parish or diocese. This is an increase of 1.4% and 2.6% respectively. This in reality is a further reduction in clergy stipends in that while stipends have been frozen, this will be the second increase in the pension contribution. This comes on top of the introduction of the concept of Pensionable Stipend, but it comes at a time when everybody is facing severe cuts. However the message from this rostrum over the last few years has been very clear from the members who have spoken – and it has been this – "We are willing to pay more so as to maintain this Pension fund." Pension contributions are a way of saving, though unfortunately the income tax advantages in the Republic have been reduced.

Section 34A has a more far reaching aspect and that is a further increase in contributions in 2015. This is an essential part of the Funding Proposal. I would ask you to note three things in respect of this. First the higher rates of contribution do not have to be introduced from the beginning because the "front loading" of substantial funding by the RCB in the first five years has eased the situation substantially. Second if there is a significant market improvement in the capital value of the fund then it may be possible to revisit in 2014 such a substantial increase for 2015. Thirdly, it is because of this increase in 2015 that the figure of 9% of Minimum Approved Stipend as the individual member's contribution for 2011 was kept in single figures. There would be difficulty in bringing contributions from members above 10% of their income.

I now turn briefly to sections 67-95 in relation to the episcopate. The changes are basically as follows – a bishop's pension for those consecrated after this year will be based on Episcopal Pensionable Stipend calculated in the same way as the Pensionable Stipend of other members, but the years of service on which the pension will be based will be the actual years of service in the fund – instead of the present system of an imputed basic full service in relation to a portion of the pension and the rest having to be earned by twelve years service in the episcopate. The other change that will affect all bishops in 2011 is that the balance between the RCB contribution (which is instead of that from diocese or parish) and their own contribution will be altered so that bishops will pay a much higher contribution than heretofore, based on Pensionable Episcopal Stipend rather than Minimum Approved Stipend. The bishops signalled to the Pension Board and to the RCB that this should happen.

In proposing this Bill, I have dealt with a number of aspects that impinge on the members and on the wider church. I am convinced that with the assistance of the actuaries, the Head of Finance in the Representative Body, my colleagues on the Working Group of the RCB Executive, and on the Clergy Pensions Board, that we have found a way forward for the Clergy Pensions Fund. In terms of its legal obligations in relation to Trusteeship, my colleague, Mr. Geoffrey Perrin will speak. In terms of the financial future of the Fund, I urge that you take the step of implementing all that this Bill implies. It would be attractive to be able to pick and choose different solutions, but the fact is that the whole Bill stands as a unity. Alternatives have been explored and ruled out, and perhaps the most encouraging aspect of the whole enterprise has been the remarkable unity not only of purpose, but also of approach by all involved. This is a costly Bill for all involved, but I am convinced that it is a fair Bill, and it is based on the reality that the Church of Ireland not only has a responsibility for its clergy, but is determined to fulfil this responsibility in as realistic a way as possible. It is also based on the other side of the contract that the clergy and bishops, who are the members of this fund, are prepared to take their own share of the pain in these difficult times. This Bill is a genuine attempt to find a way forward together and I urge you to facilitate its passage through General Synod.