

SCOTTISH EPISCOPAL CHURCH PENSION FUND

Proposals for General Synod 2013

1. Introduction

1.1 General Synod 2012 received a report on the triennial valuation of the Scottish Episcopal Church Pension Fund (referred to in this document as ‘the Pension Fund’, ‘the Fund’ or ‘the Scheme’) as at 31st December 2011. That report outlined the increased cost of providing future benefits under the Scheme in its present structure. In the light of that report, General Synod asked the provincial Standing Committee to undertake a consultation on the affordability of current benefit provision and on possible changes to the Scheme.

1.2 In October 2012, a Consultation Paper was issued on behalf of Standing Committee. That Consultation Paper emphasised Standing Committee’s desire and commitment to provide fair and proper pension provision for clergy and staff in retirement and its intention to maintain defined benefit (final salary) pension provision, provided that such provision could be afforded and sustained into the future. It made clear that, unless the Church were in a position to make greater contributions to the Fund in future, some changes to the benefit structure would be needed. The Consultation Paper consulted on a number of possible changes to the benefit structure.

1.3 The Consultation Paper was sent to stipendiary clergy and salaried staff as serving members of the Scheme as well as to diocesan and vestry secretaries as ‘employers’. A copy is appended to this report since it sets out much of the factual background to the issues in question.

1.4 This document comprises a report on the responses to the Consultation Paper and makes recommendations to General Synod. Standing Committee is grateful to the many individuals and vestries who responded. The responses have been very helpful in formulating next steps.

1.5 A brief summary of the main points in this document is set out in Section 2 below.

2. Executive Summary

2.1 A total of 132 responses were received to the Consultation Paper which was issued in October 2012. This represents a response rate of approximately 27% across the three categories of Employer/Stipendiary Clergy/Staff. The employer responses represented approximately 50% of employing bodies in the Church with direct responsibility for paying pension contributions.

2.2 50% of respondents considered that the maximum total employer contribution rate affordable for the future is 35% of stipend. The Standing Committee, consequently, concludes that alterations to the benefit structure of the Scheme will be necessary to achieve a ‘cushion’ equivalent to 7% of stipend between the cost of

contribution needed to fund future service and the maximum level of contribution of 35% affordable by the Church.

2.3 The Standing Committee does not recommend the introduction of a member contribution at the current time but indicates that this be kept under review.

2.4 The Standing Committee does not recommend a reduction in the level of spouse's/civil partner's pension to 50% but intends to keep this under review for the future.

2.5 75% of respondents supported the notion of enabling a reduction in the ongoing underlying contribution rate by combining an increase in normal retirement age to 67 and limiting future pensionable stipend growth to increases in the RPI. Consequently, Standing Committee recommends to Synod that the benefit structure of the Scheme be altered to increase normal retirement age to 67 and to limit future pensionable stipend growth to increases in the Retail Prices Index. Such changes would take effect only in relation to future service accrued after the effective date of the change.

2.6 If Synod accepts such changes, a further consultation would be undertaken with serving members of the Pension Fund following General Synod, focusing on those specific changes, with the possible implementation of the changes taking effect from January 2014.

3. Consultation Responses

3.1 The Consultation Paper contained a short response form inviting responses to five specific questions. These are addressed below. In addition, the form allowed consultees to comment on the subject matter of the questions. Consultees were able to respond either by using the hard copy form or an online equivalent. Responses could be made anonymously or on an attributed basis.

3.2 The number of responses is set out Table 1 below. In addition to the figures shown in the Tables in this report, four 'additional' employer responses were received (ie additional response from vestry members received over and above the 'official' response from that vestry) and one response was received from a former staff member who is a deferred member of the Scheme (deferred members were not sent the Consultation Paper because the matters being addressed do not affect them as such). These responses were noted but are not included in the statistics set out in this report:-

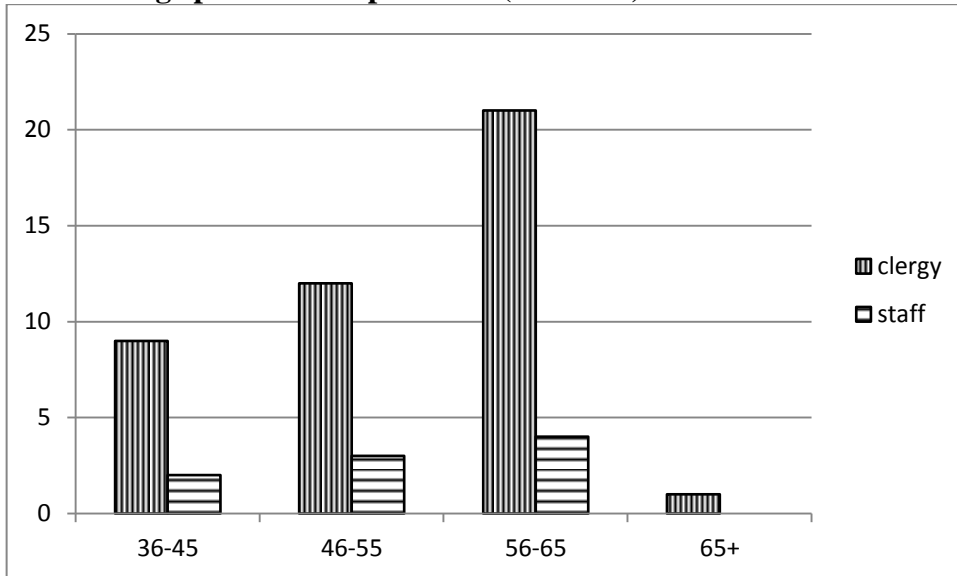
Table 1: Number of responses

	Total	of which anonymous
Employer	80	4
Stipendiary Clergy	43	13
Staff	9	3
	132	20

This represents a response rate of approximately 27% across the three categories of Employer/Stipendiary Clergy/Staff. The employer responses represent approximately 50% of employers in the Church which have some direct responsibility for paying pensions contributions.

3.3 The age profile of stipendiary clergy and staff respondents is shown in Chart 1 below. Broadly speaking, the age profile of the clergy respondents reflects the general age profile of the current stipendiary clergy serving in the Church.

Chart 1: Age profile of respondents (numbers)



4. Affordability

4.1 The Consultation Paper asked the following question:-

Please circle what you consider to be the maximum total employer contribution rate affordable in future (such contribution to include paying for both past service deficit and future service accrual):

- Less than 30% of stipend**
- 30% of stipend**
- 35% of stipend**
- 40% of stipend**
- More than 40% of stipend**

4.2 The response to this question was as follows:-

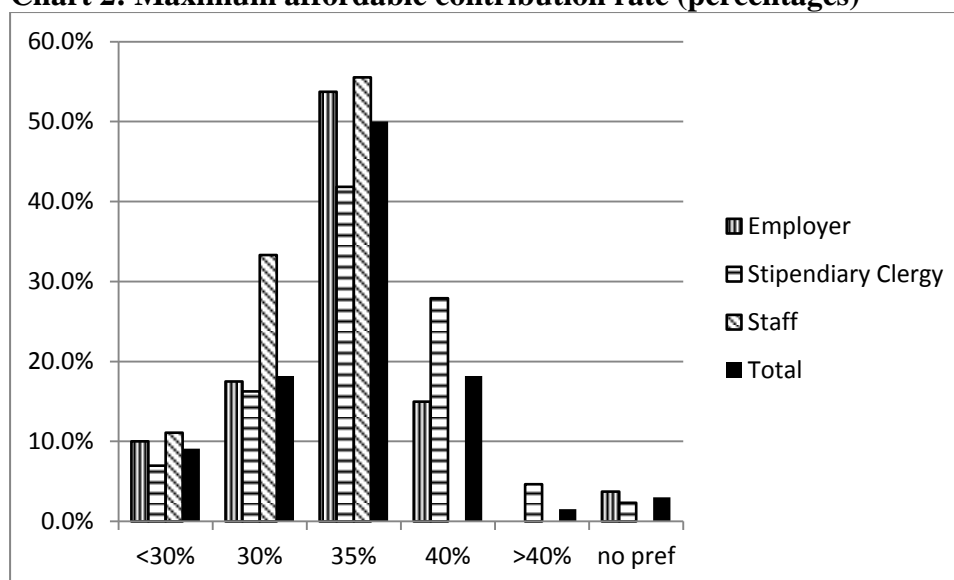
Table 2: Maximum affordable contribution rate (numbers)

	<30%	30%	35%	40%	>40%	no pref	
Employer	8	14	43	12	-	3	80
Stipendiary Clergy	3	7	18	12	2	1	43
Staff	1	3	5	-	-	-	9
	12	24	66	24	2	4	132

Table 3: Maximum affordable contribution rate (percentages)

	<30%	30%	35%	40%	>40%	no pref	
Employer	10.0%	17.5%	53.8%	15.0%	-	3.8%	100%
Stipendiary Clergy	7.0%	16.3%	41.9%	27.9%	4.7%	2.3%	100%
Staff	11.1%	33.3%	55.6%	-	-	-	100%
Total	9.1%	18.2%	50.0%	18.2%	1.5%	3.0%	100%

Chart 2: Maximum affordable contribution rate (percentages)



4.3 The responses indicate that 50% of respondents consider that the maximum total employer contribution rate affordable in the future is 35%. As might be expected, there were both employers and members who either felt that 35% was too much or that contributions could go to a higher level. 33% of clergy respondents but only 15% of employer respondents thought a contribution rate of above 35% was affordable.

4.4 A number of vestry responses indicated concern at their ability to maintain contributions at 35% (approximately 27% of employers considered that contribution rates should be less than that). Some commented that the burden of paying contributions should be borne in a different way and we comment on this in more detail in Section 9 below.

4.5 Standing Committee considers that the responses to this question confirm the informal impressions referred to in the Consultation Paper that further increase in the contribution rate would not be sustainable but that broadly speaking the current rate of 35%, though high, could be maintained. **Consequently, it concludes that alterations to the benefit structure of the Scheme will be necessary in order to achieve the ‘cushion’ equivalent to 7% of stipend between the cost of contribution needed to fund future service and the maximum level of contribution of 35% affordable by the Church.** Based on projections from the 31st December 2011 to the 31st December 2014 actuarial valuation, it was estimated that a contribution of more than 7% per annum of stipend/pensionable salaries (paid over a 15 year recovery period) would be

required to eliminate the deficit that could emerge in 2014 if experience was so adverse as to represent a 1 in 20 year (or less likely) set of circumstances. The 15 year recovery period was judged to be about as long as would be acceptable within the existing regime for funding UK pension schemes.

5. Member Contribution

5.1 The Consultation Paper asked:-

Should a member contribution be introduced at this time?

5.2 The response to this question was as follows:-

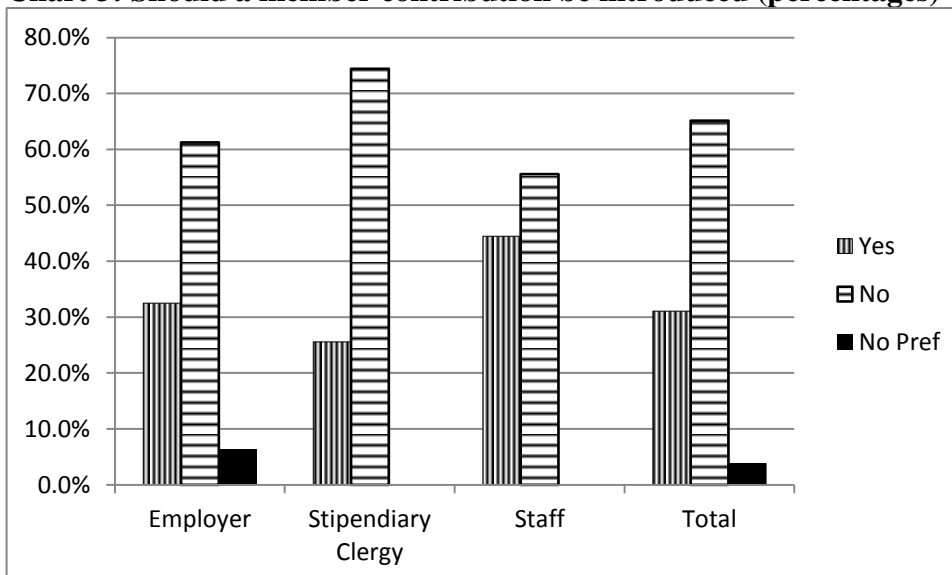
Table 4: Should a member contribution be introduced (numbers)

	Yes	No	No Pref	
Employer	26	49	5	80
Stipendiary Clergy	11	32	-	43
Staff	4	5	-	9
	41	86	5	132

Table 5: Should a member contribution be introduced (percentages)

	Yes	No	No Pref	Total
Employer	32.5%	61.3%	6.3%	100%
Stipendiary Clergy	25.6%	74.4%	-	100%
Staff	44.4%	55.6%	-	100%
Total	31.1%	65.2%	3.8%	100%

Chart 3: Should a member contribution be introduced (percentages)



5.3 Nearly two-thirds of respondents (65.2%) were opposed to the introduction of the member contribution. The remaining one-third (32% of employer respondents

and 26% of clergy respondents) favoured such an introduction and some commented that while it should not be introduced at the present time, it should be considered for the future. A number commented that to introduce a member contribution without increasing stipend would amount to a pay cut and that that was not acceptable. As was explained in the Consultation Paper, increasing stipend to enable payment of a member contribution is not particularly efficient from a financial point of view.

5.4 In the light of this, Standing Committee does not recommend the introduction of a member contribution at the current time but observes that this should be kept under review in future particularly if its introduction proved a means of maintaining the ‘final salary’ nature of the Scheme.

6. Spouse’s/Civil Partner’s Pension

6.1 The Consultation Paper asked:-

Should the level of the spouse’s/civil partner’s pension be maintained at its current level of two-thirds of member’s pension?

6.2 The response to this question was as follows:-

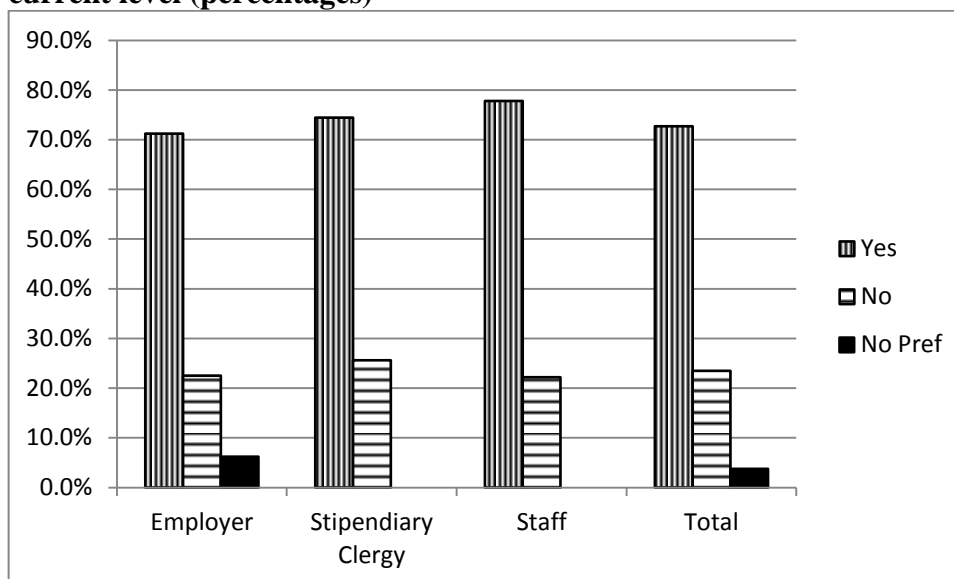
Table 6: Should the level of the spouse’s/civil partner’s pension be maintained at current level (numbers)

	Yes	No	No Pref	
Employer	57	18	5	80
Stipendiary Clergy	32	11	-	43
Staff	7	2	-	9
Total	96	31	5	132

Table 7: Should the level of the spouse’s/civil partner’s pension be maintained at current level (percentages)

	Yes	No	No Pref	
Employer	71.3%	22.5%	6.3%	100%
Stipendiary Clergy	74.4%	25.6%	-	100%
Staff	77.8%	22.2%	-	100%
Total	72.7%	23.5%	3.8%	100%

Chart 4: Should the level of the spouse's/civil partner's pension be maintained at current level (percentages)



6.3 Approximately 73% favoured maintaining the current level of spouse/civil partner pension. However, there were a number of comments on this question which suggested that the two-thirds level was unusual and that most other similar schemes provided only 50%. Statistics available from an Occupational Pension Scheme Survey conducted in 2011 by the Office for National Statistics suggest that a spouse's/civil partner's pension of up to 50% (prior to commutation) is by far the most common. Whilst that is true for schemes in general, comparison with the position in other church schemes proves not to be substantially different from the SEC Scheme. The Church of England and Church of Ireland provide for two-thirds; provision in the Church in Wales is at 60%.

6.4 As was noted in the Consultation Paper, were spouse's/civil partner's pensions to be reduced to 50%, the 'saving' in the ongoing contribution rate would be approximately 1.2% of stipend. On its own, therefore, such a change would not produce a sufficient reduction in the ongoing contribution rate as is needed at the present time.

6.5 As was explained in the Consultation Paper, the increase to two-thirds was a relatively recent change (made by General Synod 2000) and was significantly supported and considered affordable at that time. It could, of course, be argued that since the change was relatively recent, to reverse it at this point might not cause material difficulty. It is also the case that a higher level of spouse/civil partner pension may have its origins in a time when clergy spouses were less likely to be in independent employment.

6.6 In the light of the consultation responses, Standing Committee does not recommend a reduction in the spouse's/civil partner's pension to 50% but intends to keep this under review for the future.

7. Proposed Combination of Benefit Changes

7.1 The Consultation Paper asked:-

Do you think that the reduction required to the ongoing contribution rate should be achieved solely by the following combination: increase in normal retirement age to 67; limitation of future pensionable stipend growth to increases in Retail Prices Index coupled with maintaining the present accrual rate of 1/80^{ths}?

7.2 The response to this question was as follows:-

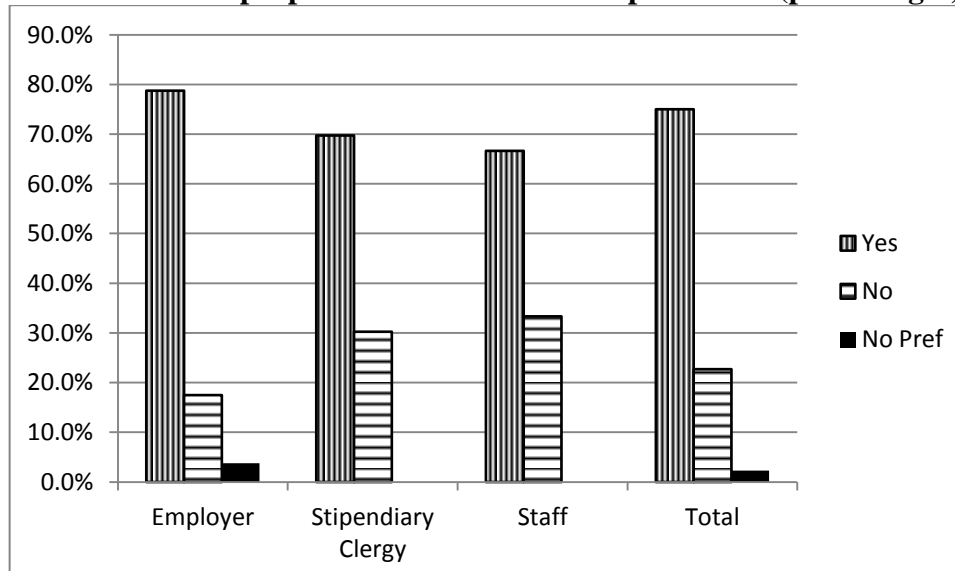
Table 8: Should proposed combination be implemented (numbers)

	Yes	No	No Pref	
Employer	63	14	3	80
Stipendiary Clergy	30	13	-	43
Staff	6	3	-	9
	99	30	3	132

Table 9: Should proposed combination be implemented (percentages)

	Yes	No	No Pref	
Employer	78.8%	17.5%	3.8%	100%
Stipendiary Clergy	69.8%	30.2%	-	100%
Staff	66.7%	33.3%	-	100%
Total	75.0%	22.7%	2.3%	100%

Chart 5: Should proposed combination be implemented (percentages)



75% of respondents supported the notion of enabling a reduction in contribution rate by combining an increase in normal retirement age to 67 and limiting future pensionable stipend growth to increases in the RPI. The figures indicate that

employers were slightly more in favour of this than serving members nevertheless a substantial majority of serving members also favoured this.

7.3 A number of comments made in the responses indicated a degree of confusion regarding references in the Consultation Paper to Retail Price and Consumer Price indices. In particular, reference was made to increases in public sector pensions in payment being limited to CPI and there appeared to be some confusion regarding increases applied to pensions in payment and increases in future pensionable stipend. It is important to emphasise that the consultation did not address the question of increases to pensions in payment because, for pension accruing each year now, the difference between what the Fund provides and the statutory minimum is not material enough to provide the level of savings needed. The consultation therefore focused on a small number of higher impact potential changes.

7.4 The reference to limiting increases in pensionable stipend to RPI, referred to in the Consultation Paper, relates not to pensions in payment but, in effect, to the level of 'final salary' upon which pension is then calculated.

7.5 Comment was also made in some of the responses querying why in some parts of the Consultation Paper there were references to RPI, and in other parts, to CPI. Those differences were intended. Consideration was given in the Consultation Paper to whether the necessary saving required in the contribution rate could be achieved simply by limiting future pensionable stipend increases (ie without making any other change to the benefit structure). As the Consultation Paper explained, to limit future stipend growth increases to CPI (which has normally increased at a lower rate than RPI) would achieve a saving of 4.8% in the contribution rate. Limiting increases to RPI would achieve a saving of only 3% which was not sufficient to produce the desired reduction of 4%.

7.6 In relation to the possibility of moving to a normal retirement age of 67, various suggestions were made including attempting to peg retirement age under the Scheme to state retirement age for pension purposes. Advice has been received that it could be risky to link retirement age under the Scheme to state retirement age because of age discrimination legislation. State retirement age itself is in a period of transition and it depends on the age of the individual in question. Applying this to accrual of pension to members of the Scheme would mean that depending on the individuals' age, the value of each year's pension would be different and, hence potentially discriminatory.

7.7 As mentioned in the Consultation Paper, if the normal retirement age for pension purposes were to be increased to 67, existing clergy would still be able to retire at 65 and take, without actuarial reduction, the pension that they had earned before the date of the change. Service earned after the date of the change would assume a pension age of 67 so that if a member of the Scheme decided to retire before 67, there would be some reduction for early payment in respect of service accrued after the date of the change. The immediate impact on clergy who have already earned most of their pension would be small but the impact would grow over time.

7.8 **In the light of the support indicated in the responses for the combined option, Standing Committee proposes to recommend that the benefit structure of**

the Scheme be altered to increase normal retirement age to 67 and to limit future pensionable stipend growth to increases in the Retail Prices Index.

8. Ranking of Possible Benefit Changes

8.1 The Consultation Paper asked the following:-

Please rank the three single benefit changes detailed at sections 8.8 to 8.18 [of the Consultation Paper] in order of preference. (1 = most preferred; 3 = least preferred.)

	Preference
Only change the accrual rate (from 1/80ths to 1/95ths)	
Only change the normal retirement date (from 65 to 70 or older)	
Only change the rate of increase in pensionable stipend (limit increases to no more than CPI)	

8.2 The response to this question was as follows:-

Table 10: Ranking of possible benefit changes (numbers)

	Employer	Clergy	Staff	
Only change accrual rate (reduced to 95ths)				
1 most preferred	3	6	1	10
2	9	14	3	26
3 least preferred	64	22	5	91
no preference	4	1	-	5
Total	80	43	9	132
Only change retirement age (increased to 70)				
1 most preferred	42	15	2	59
2	25	10	4	39
3 least preferred	9	17	3	29
no preference	4	1	-	5
Total	80	43	9	132
Limit pensionable stipend to no more than CPI				
1 most preferred	34	18	6	58
2	41	19	2	62
3 least preferred	1	5	1	7
no preference	4	1	-	5
Total	80	43	9	132

Table 11: Ranking of possible benefit changes (percentages)

	Employer	Clergy	Staff	
Only change accrual rate (reduced to 95ths)				
1 most preferred	3.8%	14.0%	11.1%	7.6%
2	11.3%	32.6%	33.3%	19.7%
3 least preferred	80.0%	51.2%	55.6%	68.9%
no preference	5.0%	2.3%	-	3.8%
Total	100%	100%	100%	100%
Only change retirement age (increased to 70)				
1 most preferred	52.5%	34.9%	22.2%	44.7%
2	31.3%	23.3%	44.4%	29.5%
3 least preferred	11.3%	39.5%	33.3%	22.0%
no preference	5.0%	2.3%	-	3.8%
Total	100%	100%	100%	100%
Limit pensionable stipend to no more than CPI				
1 most preferred	42.5%	41.9%	66.7%	43.9%
2	51.3%	44.2%	22.2%	47.0%
3 least preferred	1.3%	11.6%	11.1%	5.3%
no preference	5.0%	2.3%	-	3.8%
Total	100%	100%	100%	100%

Chart 6: Only change accrual rate (reduced to 95ths)

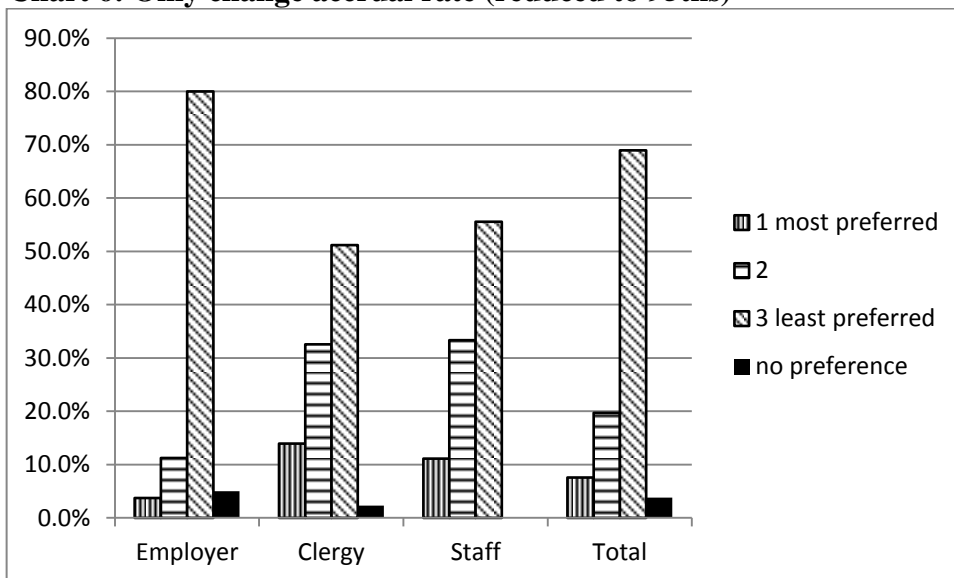


Chart 7: Only change retirement age (increased to 70)

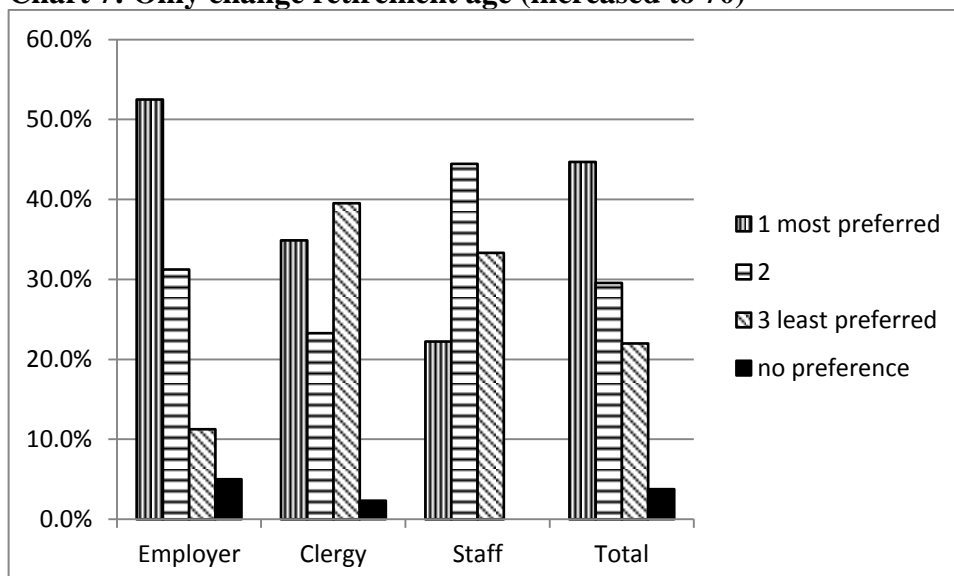
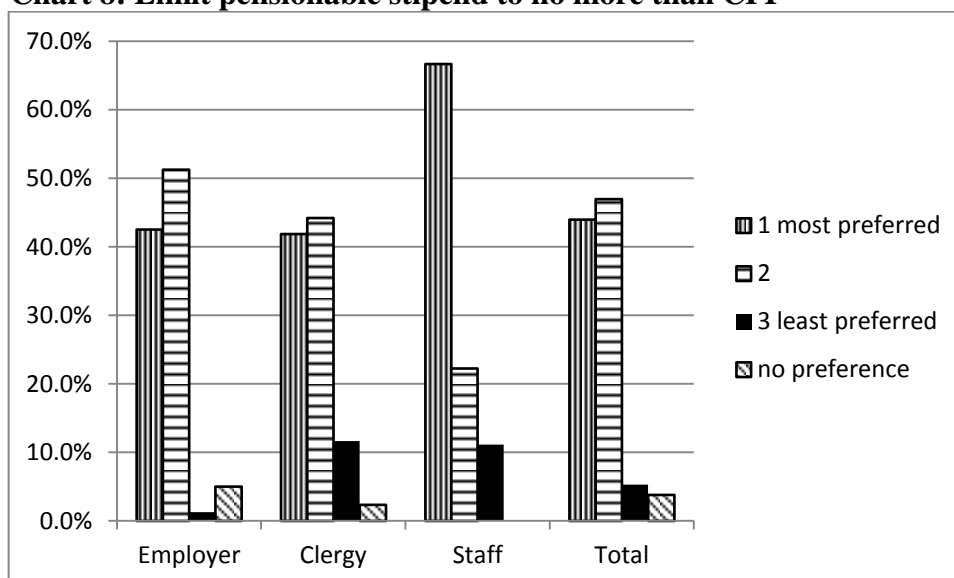


Chart 8: Limit pensionable stipend to no more than CPI



8.3 The purpose of including this question in the Consultation Paper had been to provide some basis for making alternative proposals if the responses had indicated that a contribution rate of 35% was not sustainable or that the combination of options referred to in Section 7 above was not thought to be desirable. Given the general indication that 35% could be sustained as a contribution rate and the positive response to the proposed combination, the views on the ranking of possible benefit changes is of interest but, in the light of the positive response to the combined option, it is not necessary to arrive at any particular conclusions in relation to the views as to ranking.

9. Other Respondent Comments

9.1 A large number of comments were made on the consultation response forms. The Standing Committee is grateful to all those who took time to respond thoughtfully

by providing such comments. An exhaustive response to all comments is not possible, and a number of the comments have been responded to by explanations set out earlier in this document. However, the following may also be of assistance in relation to some areas of comment.

9.2 A number of respondents suggested that final salary schemes were simply no longer sustainable and that it was time for the Church to move to a different form of provision. The Standing Committee accepts that many employers have closed their final salary schemes either to new entrants or in their entirety. The responses to the consultation suggest, however, that, provided modifications are made, the sustaining of the existing Scheme remains possible. Standing Committee believes that the benefits derived from a final salary arrangement are worthwhile and that it is highly desirable to maintain the Scheme provided it remains affordable.

9.3 One of the reasons for endeavouring to maintain the final salary provision is the general fact that owing to mobility of clergy within the UK, it is important that pension provision should be broadly comparable. The different church schemes which exist in the Anglican churches in the UK are by no means identical but they are believed to be comparable enough so as not to act as a deterrent to clergy moving into Scotland from elsewhere.

9.4 One or two commented on the appropriateness of clergy and staff being dealt with within a single scheme. This has been considered by Standing Committee. Owing to the relatively small numbers of staff, Standing Committee does not believe that the additional administrative requirements of setting up separate provision for staff justify making different provision for clergy and staff.

9.5 Early in 2013, the Government proposed plans to revise state pension, with the introduction of the prospective 'single-tier' system from 2016. The new single tier system will replace the current basic State Pension, State Second Pension (formerly SERPS) and the savings credit element of the Pension Credit. Final salary schemes which were previously contracted out of the State Second Pension will no longer be able to remain contracted out. Since the SEC Fund is contracted into the current State Second Pension, the Government's proposals should not impact on the benefits provided by the Fund or on the employer cost. However, the change, once introduced, is likely to reduce the levels of state benefits available to many members on retirement. The fact that individuals may receive less in future from the state emphasises the importance of endeavouring to maintain adequate church pension provision.

9.6 One or two commented on the way in which pension contributions were paid. At present, contributions are paid by congregations with serving stipendiary clergy. It was suggested that it might be fairer for this to be spread more broadly within the Church as a whole. Comment was made that in two dioceses some spreading of the burden was achieved either by an adjustment to the formula for diocesan quota as it applied to individual congregations or by making some general increase in diocesan quota thereby enabling the diocese to provide specific financial assistance to congregations which might otherwise have difficulty in paying the full pension contribution. Some comment was made on this point in the Consultation Paper. Standing Committee remains of the view that arguments in favour of a broader basis

of collection throughout the entire Church are more compelling where a significant deficit is being addressed, so that the eradication of such a deficit would not be limited only to those congregations which currently have serving clergy – otherwise congregations which had stipendiary clergy in the past but do so no longer potentially avoid the obligation of funding the deficit relating to such past clergy service. It is, however, the case that in many instances, even if congregations do not have stipendiary clergy of their own, they may contribute in some way to the support of local stipendiary clergy and thereby assist in the funding of pension contributions. Also, given the fact that some dioceses already appear to be making some internal adjustment, Standing Committee believes that it is preferable to leave the funding arrangements as they stand. However, it will keep under review the question of future deficit funding if, in future, significant deficits arise.

9.7 Standing Committee has noted comment made to the effect that pensions are simply one component of the “clergy remuneration package” and the suggestion that there should be a broader review of the entirety of that package.

9.8 As many will be aware, the requirements introduced by the Government regarding "auto-enrolment" are already in the course of being implemented by UK employers. Auto-enrolment requires employers to enrol employees automatically into a workplace pension. Larger employers are already subject to auto-enrolment. Smaller employers (which will include the Church) have longer to prepare for this. Further work will be done in due course to prepare the Church for auto-enrolment and it is to be hoped that the existing Pension Scheme will satisfy the requirements of auto-enrolment for current members. On the basis of information currently available, the proposals contained in this document are not considered likely to affect adversely the Scheme's eligibility to meet the requirements of auto-enrolment for existing members. Consideration will be given to how the Church caters for the requirements of auto-enrolment as it affects church employees who are not currently members of the Scheme.

10. Recommendations

10.1 As set out above, in the light of the consultation responses, **Standing Committee recommends to General Synod that, with effect from 1st January 2014, the rules of the SEC Pension Fund be altered to provide:-**

- **That normal retirement age for pension purposes be increased to 67;**
- **That future pensionable stipend/salary growth be limited to no more than the increase in the Retail Prices Index.**

10.2 This recommendation is made subject to the statutory requirement for further consultation with members of the Pension Fund. Accordingly, a resolution will be proposed to Synod for the adoption of such changes, subject to the carrying out of further consultation.

11. Future Process

11.1 Provided General Synod passes a resolution to give effect to the above recommendation, the future timetable would be as follows:-

- June 2013: Approval by General Synod
- By not later than September 2013: Statutory consultation with Pension Fund members on the specific changes being proposed. Such statutory consultation is subject to a period of 60 days.
- Autumn 2013, following statutory consultation: consideration of responses to the statutory consultation and subject to that adoption of revised Scheme rules by the Standing Committee and Pension Fund Trustees.
- 1st January 2014: implementation of the agreed changes.

12. Conclusion

12.1 The Standing Committee reiterates its gratitude to the Church for responding to the Consultation Paper. The pension issues before the Church remain complex and grappling with such matters is difficult. The responses to the consultation have enabled Standing Committee to formulate a clear recommendation to the General Synod. Pensions, however, will inevitably remain an area requiring continued attention. In bringing the recommendations contained in this paper to General Synod, Standing Committee confirms its intention to continue to keep the question of pension provision under review in the coming years.

David Palmer
Convener
Standing Committee

April 2013

APPENDIX

The following is the Pensions Consultation Paper issued in October 2012

SCOTTISH EPISCOPAL CHURCH PENSION FUND

Consultation Paper 2012

1. Foreword

- 1.1** General Synod 2012 received a report on the triennial valuation of the Scottish Episcopal Church Pension Fund (referred to variously in this document as ‘the Pension Fund’, ‘the Fund’ or ‘the Scheme’) as at 31st December 2011. That report indicated the increasing cost of providing future benefits under the Scheme as currently structured. In the light of that report, Synod asked the provincial Standing Committee to undertake a consultation on the affordability of current benefit provision and on possible changes to the Scheme, with a view to ensuring its future affordability and sustainability.
- 1.2** Standing Committee has produced this document to undertake that consultation. It is clear that unless the Church is in a position to make greater contributions to the Fund in future, if the need arises, some changes to the benefit structure will be needed. The time to address those changes is now, when there is not immediate pressure to increase the contribution rate.
- 1.3** The Standing Committee is clear in its desire and commitment to provide fair and proper provision for clergy and staff in retirement. Its intention is to maintain defined benefit (final salary) pension provision, provided that such provision can be afforded and sustained into the future.
- 1.4** This document grapples with issues which are complex, difficult and important. They need the response of the whole Church. In facing these issues, we need to address not only the questions of the moment but also to look to the future. The Church’s ability to make pension provision is relevant to both current and future clergy and staff. It is equally relevant to the Church’s future ability to recruit and retain those who serve us in such roles.
- 1.5** This document sets out the issues we need to address. It is being sent to stipendiary clergy and salaried staff who are members of the Scheme as well as to Diocesan and Vestry Secretaries. Its purpose is to inform the Church of the issues we face and to ensure that any decisions which may need to be taken subsequently are taken in the light of clear evidence. The timetable for the process as a whole is set out in section 10 below.
- 1.6** We ask that you give this document your considered attention, complex though its content may be. Only with your consideration and response, can we best formulate solutions for the future.
- 1.7** A summary of the main points in this document is set out in section 2 below.

David Palmer
Convener, Standing Committee
October 2012

2. Executive Summary of Consultation Paper

- 2.1** The triennial valuation of the Pension Fund at the end of 2011 indicated that the deficit in the Fund in relation to past service liabilities had reduced to £3m, as compared with a deficit of £8.8m at the end of 2008. However, the cost of providing future benefits for members had increased materially between 2008 and 2011. In the light of that, General Synod 2012 asked for a consultation on questions of affordability and pension benefits.
- 2.2** The Standing Committee affirms its intention to maintain defined benefit (final salary) pension provision provided that such provision is capable of being afforded by the Church and of being sustained into the future. It is not minded to close the Scheme either in its entirety or in relation to new entrants and also believes that it is appropriate to maintain a single scheme for both clergy and staff. This consultation exercise is to explore the best means of ensuring the affordability and sustainability of pension provision for the foreseeable future.
- 2.3** The current total contribution rate is 34.9% of stipend/salary (the rest of this document for convenience refers simply to stipend but for staff members of the Scheme the contribution rate is in fact based on salary and reference to ‘stipend’ should be read accordingly). The total contribution rate of 34.9% of stipend comprises 26% towards the cost of future benefit provision and 8.9% towards funding the deficit for past service. The 2011 valuation indicates that the cost of funding future benefits has now risen from 26% to 32.2% of stipend, leaving only 2.7% available to fund the deficit for past service, which is expected to clear that deficit on the basis of the current “Recovery Plan”.
- 2.4** This document asks whether the current total contribution rate (34.9% of stipend - ie 35% for practical purposes) is the maximum total contribution rate the Church can reasonably afford. If it is, there is a risk that if further deficits arise in future, the Church may not be able to afford the overall cost. The Church’s pensions advisers have recommended that a saving equivalent to 4% of stipend should be sought in the contribution rate for future service (so that that rate would reduce from the 32.2% figure identified in the 2011 valuation to around 28%). This would therefore allow a ‘cushion’ of approximately 7% (ie the difference between contribution rates of 35% and 28% of stipend) for funding future deficit contributions if the outcome of future valuations indicated an increased deficit position. This would help to make pension provision more sustainable over the longer term.
- 2.5** This document also seeks your views on possible changes to the benefit structure of the Fund which would address the need for a saving of 4% of stipend in the contribution rate for future service. If any changes were to be made to benefits, such changes would apply only to pensionable service after the date the changes were introduced. Benefits earned in relation to pensionable service up to the point of change would remain intact. It is also the case that any future changes would not affect pensions already in payment.
- 2.6** The provisional view of the Standing Committee is that the option most likely to be acceptable comprises a combination of moving to a normal retirement age of 67 and limiting future pensionable salary growth to no more than the Retail Prices Index. It would still be possible to retire earlier albeit subject to actuarial reduction in pension accrued since the date any change is made.
- 2.7** A number of specific questions are asked in the body of the document. These are also set out in the response form where there is the opportunity for respondents to offer additional comment if they wish.
- 2.8** Once the responses to this consultation have been considered, the Standing Committee will report to General Synod 2013 and propose any changes which seem appropriate. There would then follow a focused statutory consultation with serving members of the Scheme. Any changes could then be introduced with effect from the beginning of 2014.
- 2.9** Responses to this consultation are invited by not later than 31st December 2012. They should be sent to the Secretary General, General Synod Office, 21 Grosvenor Crescent Edinburgh EH12 5EE. More information about how to respond is set out in section 9 below, including information on how to respond electronically.

3. Introduction

3.1 General Synod 2012 received a report on the triennial actuarial valuation of the Scottish Episcopal Church Pension Fund as at 31st December 2011. The key features of that valuation are that the deficit in the Fund has been reduced to £3m, as compared with a deficit of £8.8m at the end of 2008, but that the cost of providing future benefits for members had increased materially between 2008 and 2011. More information regarding this is set out in Section 4 below.

3.2 The increasing cost of funding pensions inevitably raises questions regarding the future affordability and sustainability of the Pension Fund. With those key aspects in mind, the General Synod approved the following motion:-

That, with a view to ensuring the continued affordability and sustainability of the Scottish Episcopal Church Pension Fund, the Standing Committee be invited to arrange consultation within the Church on the question of the level of affordability of the current benefit provision and on possible changes to benefit design with a view to reporting to General Synod 2013 and making recommendations to that Synod as considered appropriate.

3.3 This consultation document is issued in response to that Synod motion. In issuing it, **the Standing Committee affirms its intention to maintain defined benefit (final salary) pension provision provided that such provision is capable of being afforded by the Church and of being sustained into the future. The purpose of this consultation exercise is to seek views on the best means of ensuring such affordability and sustainability for the foreseeable future.**

3.4 **Responses to this consultation document are invited by 31st December 2012.** (Further information regarding the consultation process and future timetable can be found at sections 9 and 10.)

3.5 **It should be emphasised that if any changes were to be made to benefits available under the Pension Fund, such changes would apply only to pensionable service after the date the changes were introduced. Benefits earned in relation to pensionable service up to the point of change would remain intact. It is also the case that any future changes would not affect pensions already in payment.** Changes could, however, potentially affect the amount of pension that existing clergy would receive in retirement depending on when the individual concerned takes retirement and other factors explained in this document.

3.6 If any changes were to be made following this consultation, benefits earned to date would not be removed. Clergy nearing retirement would be less affected by any changes than those who still had many years of service ahead of them. **Pensions remain a very important component in the overall ‘terms of service package’ for clergy and it is in the interests not only of clergy but of the Church as a whole that whatever package is available meets the reasonable expectations of those entering the ordained ministry.**

3.7 In addition to balancing the legitimate interests of younger clergy still at an early stage of their ministry and those within sight of retirement, consideration of pensions provision equally needs to balance the interests of clergy on the one hand and the Church as a whole on the other. Here lie the questions of who should bear the risks inherent in any arrangement which seeks to make provision now for the delivery of benefits at some point in the future and of how much risk ought reasonably to be assumed by the various parties involved. This consultation seeks to set out how some of these complex issues might be resolved in practice.

4. Background

General Background – different kinds of pension schemes

4.1 It may be helpful to set out briefly the basic kinds of pension schemes which exist so that the subsequent discussion of matters relating to the Fund can be considered in that general context.

4.1.1 **Defined Benefit Pension Schemes:** A defined benefit or final salary scheme such as the Scottish Episcopal Church Pension Fund is one that guarantees a pension based on a member’s salary and length of service. Contributions in respect of each member are invested in a common fund from which all benefits are paid. The contribution rate is an estimate of the amount required to meet the fund’s

future liabilities and, if necessary, an additional sum to meet any shortfall in the funding of past service liabilities. It is calculated on the basis of factors which include the age profile of the membership, assumptions about salary and pension increases, mortality rates and the future investment performance of the fund. The contribution rate may therefore be subject to fluctuation over time as the membership profile changes, actuarial assumptions are refined, and investment performance is better or worse than expected. The risk associated with providing the pension guaranteed for retirement lies entirely with the employer.

- 4.1.2 Defined Contribution Pension Schemes:** A defined contribution or money purchase scheme is one in which the employer pays a fixed percentage of salary in respect of each member. Each member has an individual pension fund, usually held as units in a larger fund or funds. On retirement members purchase an annuity. The amount of pension depends upon the investment performance of the underlying funds and market annuity rates at retirement. The members bear all the investment risk, and annuity rates vary between men and women and other factors such as health affect the cost.
- 4.1.3 Hybrid Schemes:** Whilst the two models outlined above constitute the traditional kinds of scheme there is a range of hybrid schemes which have elements of the above models but which involve some degree of risk sharing so that the entirety of risk does not lie exclusively with either the employer or the member.
- 4.1.4 Respective roles of Employer and Trustees in Defined Benefit Schemes:** In a defined benefit scheme the employer chooses what benefits to offer and the terms under which these are provided are set out in a Trust Deed. It is then the responsibility of the trustees to administer the scheme in accordance with these rules and set investment strategy. In the Scottish Episcopal Church Pension Fund the employer is General Synod, but with congregations and other church bodies responsible for paying contributions in respect of the members. General Synod is the ultimate decision making body, but with the Standing Committee acting as the steering body on policy and responsible for liaison with the trustees.
- 4.1.5 Actuarial Valuation:** All defined benefit schemes are required by law to be subject to an actuarial valuation every three years. The purpose is to test whether the scheme is adequately funded. The key results from a valuation are (a) an assessment of whether the fund has enough money to meet the commitments already made (past service liabilities) and (b) an assessment of the level of funding required to provide benefits being accrued by the current membership (ongoing contribution rate). The results of a valuation give an assessment of a scheme on a particular date that indicates what the contribution rate should be for the next three years. A scheme that has a surplus in respect of past service liabilities has the potential to reduce the ongoing contribution rate, but a past service deficit has to be made good by adding to the ongoing contribution rate, or by injection of a cash lump sum. In circumstances where there is a deficit, there is a need to submit a Recovery Plan to the Pensions Regulator, setting out how the deficit is to be funded.

Specific Background - Actuarial Valuation as at 31st December 2011

- 4.2.1** A summary of the actuarial valuations of the Scottish Episcopal Church Pension Fund in the recent past is set out in Appendix B. The position is somewhat complex but the main points relating to the 2011 valuation are set out below, with more detail appearing in Appendix B.
- 4.2.2** The Recovery Plan put in place as a result of the 2008 valuation comprised a £2 million cash injection from General Synod funds coupled with a 15 year recovery period and a total contribution rate of 34.9% of stipend (26% for future service and 8.9% towards the deficit).
- 4.2.3** By the time of the 2011 valuation, the £2m cash injection and higher than expected investment returns had resulted in a reduction in the deficit from £8.8m to £3m. However, the future service contribution rate had risen from 26% to 32.2%, mainly as a consequence of historically low gilt yields, referred to in more detail in Appendix B.
- 4.2.4** The improvement in the past service funding position means that the Recovery Plan is ahead of schedule but the increase in the contribution rate for future service means that for the future, the total 34.9% contribution rate will comprise a future service contribution rate of 32.2% and a deficit contribution of only 2.7%.

4.2.5 Following the 2008 valuation the Trustees adopted an investment strategy designed to reduce the risk of volatility in the Fund value over time. This involves a gradual increase in the proportion of fixed interest investments whenever the Fund value rises above agreed trigger points. The relationship between ‘de-risking’ in investment terms and the contribution rate is explained more fully in Appendix B. If future projections for the Fund are realised, the funding level (ie the extent to which the Fund’s assets match its liabilities) would improve from 91% in 2011 to around 94% at the next valuation in 2014. However, actuarial advice indicates that there remains a 1 in 20 chance of the funding level decreasing to 84% which would result in the deficit increasing to around £9m, pushing the contribution rate up to around 40% thereafter.

4.2.6 **If 35% of stipend is the maximum total contribution rate the Church can reasonably afford, the Church’s pensions advisers have recommended that a saving of 4% of stipend should be sought in the contribution rate for future service (so that that rate would reduce from the 32.2% figure identified in the 2011 valuation to around 28%).** This would therefore allow scope for funding future deficit contributions if the outcome of future valuations indicated an increased deficit position.

4.2.7 Further information regarding the history of the Fund and its benefit structure is set out in Appendix B. The benefits provided by the Fund comprise one element of what is available to members in retirement, alongside State Retirement Pension and State Second Pension. There is also a scheme for additional voluntary contributions to be made by members. This consultation document is limited to discussion of the benefits provided by the Fund.

5. Reasons for the Consultation

5.1 The environment for defined benefit pension schemes has been challenging for a number of years and remains so. The underlying issue for all organisations which provide defined benefit pensions is that the cost of financing them has increased significantly. As a result, many organisations have closed their defined benefit schemes altogether or have closed such schemes to new members. Others, including many religious organisations and churches (such as the Church of England) have made changes to benefit structures in order to keep such schemes open.

5.2 As detailed at 4.2.3 one of the significant findings of the 2011 actuarial valuation was that, although there was a welcome reduction in the deficit in relation to past liabilities, there has been a significant increase in the cost of funding future benefit accrual. **This consultation is being undertaken because of the cost of future benefit accrual.**

5.3 The 2011 valuation results indicate that the cost of future benefit accrual has increased from 26% of stipend in 2008 to 32.2% at the end of 2011. Given that there has been a reduction in the deficit it has been possible to retain the total overall contribution rate of 34.9%. The change in composition of this overall contribution rate is significant:

	2008 valuation	2011 valuation
Future benefit accrual	26.0%	32.2%
Deficit contribution	8.9%	2.7%
Total contribution	34.9%	34.9%

5.4 Two particular issues bear on this situation:-

5.4.1 Given the inherent uncertainties in forecasting future costs, the 2.7% margin currently being used for deficit funding leaves very little room for manoeuvre if conditions deteriorate.

5.4.2 The ability of the Church to fund contributions cannot be unlimited and anecdotal evidence suggests that the current overall contribution rate of 34.9% may be approaching the maximum level which congregations feel able to afford.

5.5 The results of the 2011 valuation and the decision of General Synod 2012 not to increase the overall contribution rate of 34.9% at the present time has afforded the Church an opportunity to take stock of the position and consider whatever changes are advisable without the pressure of any immediate need

to increase contribution rates. **The Standing Committee, on behalf of the Church, therefore, wants to use this opportunity to consult on two areas:-**

5.5.1 It wishes to obtain a better evidential basis upon which to assess the level of affordability of pension provision within the Church, rather than proceeding simply on the basis of anecdote or hearsay.

5.5.2 In the light of advice received from the Church's pensions advisers, it wishes to sound out serving members and Church 'employers' (vestries and dioceses) on possible alterations to benefits accruing in relation to future service in order to make pension provision more sustainable over the longer term.

5.6 There is inevitably an element of risk associated with any form of pension provision. The cost of providing benefits in relation to both past and future service is, of necessity, based on a range of assumptions. Such assumptions are adopted on the basis of professional advice but, ultimately, there can be no guarantee as to whether the assumptions will prove to be correct or not. In looking to the future, the Church needs to be satisfied that the level of risk being assumed for the future is reasonable in all the circumstances. **Advice from the pensions advisers to the Church is to the effect that, given a range of potential funding scenarios for the future, it would be appropriate to seek to ensure a 'cushion' equivalent to 7% of stipend between the cost of contribution needed to fund future service and the perceived maximum level of contribution affordable by the Church.**

5.7 In other words, if, say, a contribution rate of 35% of stipend is considered to be the maximum affordable, then the benefits accruing from future service should be tailored so as not cost more than 28%. That 7% cushion would then give some manoeuvrability to cope with the possibility of deficits arising in relation to past service or for the fact that, in the future, the cost of providing for future service might increase again. **The cost of future benefit accrual is currently 32.2% and therefore savings of approximately 4% would be required to achieve a rate of 28%.** (The effect of this, therefore, would be that, at least theoretically, the actual contribution rate might be around 28% of stipend if there were no deficit for past service liability and if the cost of future benefit accruing were not to increase.)

6. Options Considered

6.1 Since the contribution rate was increased to its current level of 34.9% of stipend with effect from the beginning of 2010, the provincial Standing Committee has been actively considering the broad canvas of possible options available to the Church, given the increased cost involved in maintaining the current Scheme. Matters which have been considered include:-

- Scheme closure
- Moving to a different kind of pension provision
- Maintaining the current defined benefit provision, subject to modifications

6.2 **Scheme closure:** In theory, the Church could decide to wind up the existing Scheme, close it for all future accrual, or close it simply for new entrants. Were the Scheme to be wound up, the Church would be required to make a payment equal to the deficit in the Scheme at the point of winding up. This would require the Scheme to be valued on a 'wind up' basis, which requires a different, more conservative, set of assumptions than those of a 'normal' valuation. On the basis of the 2011 valuation, the deficit arising in a 'wind up' situation is of the order of £7.8m. An alternative to winding up the Scheme would be to operate it as a closed scheme. Such a step would require funding of the deficit by way of continuing contributions (but without contributions for future service accrual). The Church would also need to institute, and pay contributions into, a new form of scheme to provide alternative pension provision for future service both for existing members of the Scheme and for new entrants to the stipendiary ministry and staff of the Church. Closing the existing Scheme to new entrants would have no effect on the past service deficit or on contributions for future service of existing members in the short term. Over time however, there is likely to be a requirement to increase contribution rates as the average age of the active membership increases and the number of active members decreases.

- 6.3 In the light of the above, and in view of its general commitment to the retention of an affordable final salary pension scheme, the Standing Committee is not minded to close the Scheme either in its entirety or in relation to new entrants.**
- 6.4 Alternative provision:** The Standing Committee has explored the possibility of introducing alternative schemes such as a defined contribution scheme or some form of hybrid scheme which might include elements of ‘defined benefit’ and ‘defined contribution’. Altering the nature of pension provision would not eradicate the deficit in the current Pension Fund but, in relation to future service, would transfer the risk, to a greater or lesser extent, from the Church to clergy of the level of actual benefits received in retirement. **Given the fact that opportunities for clergy to make significant provision for themselves in retirement are limited – because stipend levels are modest – and the fact that the degree of certainty inherent in defined benefit pension is an important factor in the overall ‘package’ offered to those entering a lifetime of ministry, the Standing Committee believes that it is appropriate for clergy pension provision to remain on a ‘defined benefit’ basis provided this can be done within affordable and sustainable parameters.**
- 6.5 Separation of clergy and staff provision:** At present, the Pension Fund covers provision for both clergy and staff. Consideration has been given as to whether for the future different provision should be made for those two categories. However, staff represent only 17% of the active membership and 14% of the past service liabilities. The Church has been advised that it would not be practical (and perhaps not even possible) to split the past service deficit between the two groups. Also, the impact of closing the Pension Fund to new staff would be relatively small given that the majority of the liabilities and ongoing costs are in respect of clergy. **The Standing Committee believes that it is therefore appropriate to maintain a single scheme for both clergy and staff.**
- 6.6 Modification of defined benefit provisions:** The option of maintaining the current defined benefit Scheme but making some modification to specific aspects of it is explored in section 8 below.
- 7. How affordable is current pension provision?**
- 7.1** As currently structured, the Pension Fund is ‘non-contributory’ in that there is no ‘employee’ contribution. All contributions fall on the employer and, in the case of stipendiary clergy, this falls on the ‘employing’ congregation or diocese, depending on local circumstances. The current contribution rate of 34.9% of stipend translates into an annual contribution of £8,121 in 2012.
- 7.2** Looking to the future, the Standing Committee is keen that the whole Church should plan strategically to avoid the possibility of further increases in contribution rates which could prove unaffordable for congregations. Our congregations on the whole appear to have been able to adjust to the current contribution rate but there is a need to explore whether current levels represent the maximum which can be expected or whether there would be scope for further increases if necessary.
- 7.3** In approaching the issue of affordability, one is effectively addressing the difficult question of how the cost of providing future benefits can most fairly be borne. In blunt terms, if benefits become more expensive to fund, there is a choice between paying that extra cost or cutting back on the benefits provided. This question is not unconnected with the question of introducing a contribution on the part of members which is explored further below. Similarly, it is not unconnected with the manner in which the employer contribution is borne. Some consideration has been given to funding the Church contribution in a different way. Instead of congregations individually paying contributions for their serving clergy, the burden could be spread more broadly - for example, by increasing quota to fund pension. The arguments in favour of a broader basis of collection are perhaps more cogent where a significant deficit is being addressed – why, for example, should the eradication of such a deficit be limited to those congregations which currently have serving clergy if the deficit, in part, relates to past service of clergy who may have previously served in congregations which no longer have a stipendiary priest? Given that the size of the deficit was lower at the 2011 valuation than in 2008, the Standing Committee is not in fact proposing any alteration to the manner of collection of contributions. Nevertheless, the broad question of affordability remains.
- 7.4 Informal impressions gleaned from dioceses appear to suggest that whilst congregations have managed to meet the demand of current contribution levels, any further increase would not be**

sustainable. We now wish to ascertain whether such impressions are correct. Question 1 asks for your response.

In considering the following question, bear in mind that the current contribution rate is 34.9% of stipend. Also, in considering questions of affordability, it should be borne in mind that, in broad terms, the lower the contribution rate, the lesser the benefits that can be provided by the Scheme. The lower the contribution rate that might be opted for, in responding to the following question, the greater the stringency of benefit reductions which would be required.

Question 1

Please circle what you consider to be the maximum total employer contribution rate affordable in future (such contribution to include paying for both past service deficit and future service accrual):

- Less than 30% of stipend**
- 30% of stipend**
- 35% of stipend**
- 40% of stipend**
- More than 40% of stipend**

7.5 It is acknowledged that in responding to the question of affordability, congregations will be faced with the difficult task of balancing considerations of their own particular financial situation with their duty to act as responsible employers and to ensure adequate provision for clergy in retirement. It is suggested that vestries should engage in consideration of this question since there is a corporate and pastoral responsibility to clergy on the part of congregations as a whole in these matters.

8. Possible changes

8.1 If there is little or no scope for the level of contributions to be increased then on the basis that, for the long term good of the Church and its clergy, proper pension provision should continue to be made in the form of a final salary pension scheme, some adjustment would need to be made in respect of the level of benefits accruing for future service. As outlined at sections 5.6 and 5.7, since the Church's pensions advisers have indicated that there would be a need to make adjustments to reduce the future service contribution rate by approximately 4% of stipend, there is a need to consider how in practice such a saving could be achieved and the consequences for future benefits from the Scheme.

8.2 A variety of possibilities have been considered and the provincial Standing Committee wishes to consult on those possibilities in order to gauge opinion. The particular aspects considered, and which are set out in more detail below, are as follows:-

- Introduction of a member contribution
- Level of spouse's pension
- Accrual rates
- Normal retirement age
- Level of pensionable stipend.

Introduction of a Member Contribution

8.3 As mentioned above, under the Scheme at present, all contributions are made by the 'employer'. The Scheme is non-contributory from the point of view of members. Many pension schemes include a contribution from members. Were a contribution to be taken from members, this would not alter the benefits provided by the Pension Fund as such. Rather, it would spread the cost of providing the benefits between the 'employer' and 'employee'. The introduction of a member contribution (without any increase in stipend) would reduce the cost borne by the employer. In practical terms, however, such a change would, given that it would require a deduction from stipend, result in a 'pay cut'.

8.4 The position becomes more complex if stipend were increased to compensate clergy (in full or in part) for the impact of the introduction of the member contribution. Whilst pension contributions are deductible for tax purposes, national insurance contributions are paid on gross stipend. Consequently, if stipend were increased to ensure that clergy did not suffer a cut in net pay the total cost borne by the congregation would increase. (It would be possible to partially compensate clergy without increasing

the cost borne by the congregation.) An illustration of this is set out in Appendix C. Any increase in stipend would also increase the deficit in relation to past service and might therefore result in increased contribution rates.

- 8.5** In the light of the issues outlined in sections 8.3 and 8.4 above, the Standing Committee is not minded to introduce a member contribution at the current time. Nevertheless, views are sought on the introduction of a member contribution.

Question 2

Should a member contribution be introduced at this time?

Yes

No

Level of Spouse's/Civil Partner's Pension

- 8.6** In the event of a member's death after retirement, the Pension Fund currently provides a spouse's (or civil partner's) pension of two-thirds of the member's pension following the death of the member. It would be possible to change this in relation to the accrual of future service, to a lower amount, for example, one-half. Were such a change to be undertaken, this would reduce the ongoing contribution rate on the part of the Church by approximately 1.2% of stipend.
- 8.7** General Synod agreed in 2000 to accept the recommendation of the Clergy Personnel Commission that the spouse's pension be increased from one-half to two-thirds. Since this change is relatively recent, the Standing Committee does not expect that there would be much appetite for a reversal to the previous lower level. Nevertheless, views are sought on the level of spouse's pension.

Question 3

Should the level of the spouse's/civil partner's pension be maintained at its current level of two-thirds of member's pension?

Yes

No

Accrual Rate

- 8.8** The benefits provided by the Pension Fund to an individual are determined by reference to the period of service of that individual. Currently, the Pension Fund is structured as a 1/80th scheme. In consequence, an individual who has served for 40 years will receive a pension of 40/80th (or one half) of pensionable stipend. The maximum which can be accrued is 42/80th.
- 8.9** It would be possible to alter the accrual rate for future service. Making no other changes to the benefit structure of the Scheme, a move to a 1/95th accrual rate would achieve the desired saving of 4%. If that one change were to be made, the future maximum pension which could be earned under the Scheme would be 42/95th of pensionable stipend. The impact of such a change would be to reduce the amount of pension accrued for each year of service by 15.8%. (By way of illustration, an individual retiring in 2012 with 40 years' service would currently receive an initial pension of £11,635. If the accrual rate had been 1/95th for the whole period of service the initial pension would be £9,798.)

Normal Retirement Age

- 8.10** The concept of 'normal retirement age' for pension fund purposes needs to be distinguished from actual retirement age and indeed canonical retirement age. At present, the Canons of the Church provide that, subject to some provision for extension, stipendiary office will not normally be held after the age of 70. The 'normal retirement age' for pension purposes is 65. In other words, pension can be drawn from age 65 without reduction (early retirement prior to age 65 entails actuarial reduction of the pension receivable).
- 8.11** Extending normal retirement age for pension purposes beyond 65 would reduce the contribution rate payable because pension would not become payable until later. However, in the absence of any other changes to the benefit structure of the Pension Fund, normal retirement age would need to be extended to 70 or beyond in order to achieve the required savings in the ongoing contribution rate. This suggests that, whilst changing the normal retirement age might well form part of an overall solution, it is unlikely by itself to be sufficient to reduce the ongoing contribution rate to desirable levels.

- 8.12** It is important to emphasise that any change to normal retirement age for pension purposes would have effect only in relation to pension accrued from the date that a change in normal retirement age is made. For example, if the normal retirement age were to be moved to 67, existing clergy would still be able to retire at 65 and take, without actuarial reduction, the pension that they had earned before the date of the change. But all service earned after the date of change would assume a pension age of 67, so if a member of the scheme decided to retire before 67 there would be some reduction for early payment in respect of that period of service. The immediate impact on clergy who have already earned most of their pension would be small. The impact would steadily grow over time.
- 8.13** Consideration of retirement age also needs to be seen in the wider context of state pension provision. The already agreed increase in state pension age to 68 for both younger men and women is likely to result in an increasing trend towards later retirement ages.

Future Increases in Pensionable Stipend

- 8.14** At present, as mentioned above, pensions are linked to the level of standard stipend.
- 8.15** For the future, savings in the ongoing contribution rate could be achieved by limiting increases to the stipend on which pension is based. In other words, a notional ‘pensionable stipend’ could be used to calculate the actual pension payable. At present, that ‘pensionable stipend’ is in fact ‘standard stipend’ (as agreed annually by the Church). Increases in standard stipend are tied to the Church of England national stipend benchmark. Current assumptions for pension purposes are that stipend will grow at the rate of Retail Price inflation plus 1% per annum. A saving of approximately 3% could be achieved if increases in pensionable stipend were limited to just Retail Price inflation. By comparison, tagging future stipend growth to Consumer Price inflation would achieve a saving of 4.8% in the contribution rate. On that basis, therefore, to achieve the necessary reduction in the ongoing contribution rate by adjusting future growth in pensionable stipend alone, it would be necessary to limit such stipend growth to around the level of Consumer Prices inflation.
- 8.16** Historically the rate at which stipend has increased compared to inflation has fluctuated over the years. The following table provides details of how stipend increases have compared with the Retail Prices and Consumer Prices Indices over various periods (the Consumer Prices Index has not operated throughout the entirety of the periods shown below). Generally, increases have been in excess of both indices, but the experience over the last five years has been different, with increases being at less than the rate of inflation.

	RPI	CPI	Stipend	Stipend minus RPI	Stipend minus CPI
Average over					
45 years	6.4%		7.4%	1.0%	
35 years	5.3%		7.0%	1.7%	
25 years	3.6%		5.0%	1.4%	
15 years	2.9%	2.1%	3.9%	1.0%	1.8%
5 years	3.5%	3.2%	2.2%	(1.3%)	(1.0%)

- 8.17** It is important to emphasise that alteration to growth in future pensionable stipend as referred to above would not affect the actual amount of stipend paid; nor would it limit the factor by which standard stipend might in fact increase each year. It would, however, mean that the stipend upon which pension is payable would be a notional pensionable stipend and not actual standard stipend. Accordingly, if actual stipend increased at a rate in excess of the growth rate applicable to pensionable stipend, the level of pension which would be paid on the basis of that notional pensionable stipend would be less than the amount of pension currently payable on the basis of standard stipend. An illustration is included in Appendix D but it should be emphasised that it is much more difficult to assess the effect of such a possible change because it requires assumptions to be made regarding both future stipend growth and rates of inflation, potentially over a very long period into the future. Slight changes in assumptions can, therefore, produce very different outcomes.

- 8.18 The precise figure of pensionable stipend would need to be agreed annually, on behalf of the Church. Similar principles would apply to salaried staff members and their respective employers (eg Dioceses) would be required to provide information annually about staff salary increases.

Combination of Options

- 8.19 As is evident from what is said above, attempting to achieve the required saving of around 4% on the basis of adjusting only one area of benefit would require fairly significant change to that one benefit. The Standing Committee does not consider that making very significant change to just one area of benefit is likely to be particularly palatable but nevertheless consults below on what such single options might look like.
- 8.20 The position appears less formidable if combinations of possible options are considered. Combining the impact of possible alterations to both the accrual rate and to normal retirement age produces results which achieve the necessary savings in the contribution rate - for example, if a 1/95th accrual rate were combined with 66 as a normal retirement age or a 1/90th accrual rate were coupled with an age 67 normal retirement age.
- 8.21 **The provisional view of the Standing Committee is that the option most likely to be acceptable comprises a combination of moving to a normal retirement age of 67 and limiting future pensionable salary growth to no more than the Retail Prices Index.** This is because that combination would allow the accrual rate to remain at its current level of 1/80th and because an upwards adjustment to pensionable retirement age is similar to the kind of changes being experienced by the population at large in relation to state retirement age. Also, while accepting that average stipend increases over the years have generally exceeded the rate of inflation, the experience of the last five years has been different, with stipend increases being at less than the rate of Retail Price inflation. The illustrations set out in Appendix D include this combination of options. It is recognised, however, that this combination carries a degree of uncertainty because of the difficulty in being able to determine the likely pattern of stipend increases for the future in relation to inflation. If this combination were adopted and stipend increased at a rate the same as, or less than, the rate of Retail Prices, then there would be no differential between actual stipend and pensionable stipend. Consequently, provided stipends increased only at that level, the level of pension ultimately receivable would not be reduced (as compared with pension receivable on the current basis) by this factor in the combination. It would, of course, be affected if stipend increased at a rate greater than Retail Price inflation. If a different combination of options were adopted which included a reduction in the accrual rate, there would necessarily be a reduction in the pension ultimately receivable (as compared with pension receivable on the current basis) because pension would have accrued at a lower rate.
- 8.22 Also, whilst the schemes are not directly comparable, it might be noted that recently the Church of England funded scheme has moved to a retirement age of 68 for future service, has further increased the service required for new entrants for a full pension from 40 to 41.5 years and has decided to limit increases in pensionable stipend to a rate not greater than the Retail Price Index.
- 8.23 The nature of the scheme is such that it is not possible for different members to opt for a different combination of benefits. An appropriate combination applicable to all members therefore needs to be identified.

Consultation on Specific Options

- 8.24 The following questions seek to gauge the level of support for a specific combination of changes or for specific individual benefit changes. The combination of alterations listed at *Question 4* would together achieve the requisite reduction in the contribution rate. Similarly, the possible alterations to the single areas of benefit detailed at *Question 5* would each individually be sufficient to achieve the required reduction in the ongoing contribution rate for future service. (Should the combination outlined at *Question 4* not command sufficient support from respondents an alternative combination will need to be considered based on the responses to *Question 5*.)

Question 4

Do you think that the reduction required to the ongoing contribution rate should be achieved solely by the following combination: increase in normal retirement age to 67, limitation of future pensionable stipend growth to increases in Retail Prices Index coupled with maintaining the present accrual rate of 1/80th?

Yes

No

Question 5

Please rank the three single benefit changes detailed at sections 8.8 to 8.18 in order of preference. (1 = most preferred; 3 = least preferred.)

	Preference
Only change the accrual rate (from 1/80ths to 1/95ths)	
Only change the normal retirement date (from 65 to 70 or older)	
Only change the rate of increase in pensionable stipend (limit increases to no more than CPI)	

9. Responding to the Consultation

9.1 This document seeks responses from those who may either be ‘employers’ within the Church for pension purposes and from those who are active members. The response form set out in Appendix A invites you to indicate to which category of consultee you belong. It is helpful if you provide your name and contact details on the form but that is not mandatory.

9.2 This document is being sent to vestry secretaries with the request that it be shared with vestries and vestry treasurers before a response is submitted. It is similarly being sent to diocesan secretaries with a request that it be shared with diocesan Standing Committees (or equivalent) and diocesan treasurers. It is also being sent to all active members of the scheme (ie stipendiary clergy and church staff who are members of the Scheme).

9.3 Responses to this consultation are invited by not later than 31st December 2012. The preferred manner of response is by use of the online response form available at: www.is.gd/SECPensions Alternatively, the form can be submitted by email to PensionsConsultation@scotland.anglican.org or by post to:-

The Secretary General, General Synod Office, 21 Grosvenor Crescent, Edinburgh, EH12 5EE

10. Future Process

10.1 Following the response date of 31st December 2012, the future timetable is expected to be as follows:-

- January to April 2013: consideration of consultation responses and deliberation by Standing Committee and Pension Fund Trustees
- June 2013: report to General Synod with any specific proposals for change
- Autumn 2013: statutory consultation with Pension Fund members on any proposed changes
- January 2014: implementation of any agreed changes.

11. Conclusion

11.1 The issues sought to be addressed in this paper are both complex and important. Despite their complexity, the Standing Committee hopes that the recipients of this consultation paper will take the opportunity to grapple with matters which directly affect the functioning of our Church through the pension provision which we make for our retired clergy. These issues are worthy of full and proper consideration. The Standing Committee expresses its thanks, in advance, to all those able to consider this document and make a response.

David Palmer
Convener
Standing Committee

October 2012

APPENDIX A

SCOTTISH EPISCOPAL CHURCH PENSION FUND

Consultation Response Form

A. Respondent details (required)

1. I am responding to the consultation in the following capacity (please circle):

Employer (eg Vestry, Diocesan Standing Committee etc)

Stipendiary clergyperson

Staff (provincial or diocesan)

2. Age (individual responding scheme members only) – please indicate age range:

25-35

36-45

46-55

56-65

over 65

B. Responses to specific questions

1. Please circle what you consider to be the maximum total employer contribution rate affordable in future (such contribution to include paying for both past service deficit and future service accrual):

Less than 30% of stipend

30% of stipend

35% of stipend

40% of stipend

More than 40% of stipend

Comments:

2. Should a member contribution be introduced at this time?

Yes

No

Comments:

3. Should the level of the spouse's/civil partner's pension be maintained at its current level of two-thirds of member's pension?

Yes

No

Comments:

4. Do you think that the reduction required to the ongoing contribution rate should be achieved solely by the following combination: increase in normal retirement age to 67, limitation of future pensionable stipend growth to increases in Retail Prices Index coupled with maintaining the present accrual rate of 1/80^{ths}?

Yes

No

Comments:

5. Please rank the three single benefit changes detailed at sections 8.8 to 8.18 in order of preference. (1 = most preferred; 3 = least preferred)

	Preference
Only change the accrual rate (from 1/80ths to 1/95ths)	
Only change the normal retirement date (from 65 to 70 or older)	
Only change the rate of increase in pensionable stipend (limit increases to no more than CPI)	

Comments:

- C. Do you have any other comments?

- D. Respondent details (desirable but not mandatory)

Name:

Position:

Address:

Please return this form by not later than 31st December 2012. The preferred manner of response is by use of the online response form available at: www.is.gd/SECPensions Alternatively, the form can be submitted by email to PensionsConsultation@scotland.anglican.org or by post to:-

The Secretary General
 General Synod Office
 21 Grosvenor Crescent
 Edinburgh
 EH12 5EE

APPENDIX B

Background and Further Information regarding the Scottish Episcopal Church Pension Fund

History

The Pension Fund is an amalgamation of all the previous pension arrangements in the Scottish Episcopal Church. The Aged and Infirm Clergy Fund, Scottish Episcopal Church Widows and Orphans Fund (SECWOF) and Cash Retirement Benefit Fund (CRBF), and part of the Widows' and Orphans Supplementary Fund (WOSF) were amalgamated to form the Scottish Episcopal Church Pension Fund in January 1988. The new scheme provided improved future pension benefits for clergy and upgraded all past service (both serving and deferred) in line with the new benefit structure.

Benefit Structure

The basic benefit structure of the Scottish Episcopal Church Pension Fund is:

- Accrual rate of 1/80th pensionable stipend for each year of service subject to a maximum of 42 years
- The Scheme is contracted in to the State Second Pension (formerly known as SERPS): Members accrue additional State Pension related to earnings from part of their National Insurance contributions (unless individually opted out)
- Death in service benefit of three times stipend (increased from twice stipend in 2000)
- Two thirds widowed spouses'/civil partners' pensions (increased from one half in 2000)
- Statutory increases to deferred pensions prior to retirement
- Normal retirement age 65
- Guaranteed increases to pensions in payment
- Staff members were admitted on same terms from 1993-4 when the existing staff pension scheme with Clerical Medical was wound up.

At inception the Scheme was designed to provide a combined benefit of Scottish Episcopal Church Pension, State Pension and SERPS equivalent to stipend after service of 40 years.

Recent Valuations

The initial contribution rate in 1988 was 9% of stipend, but this rose to 11% in 1992 (1990 valuation results), then 13% in 1995 (1993 valuation), and 14% for clergy and 15.8% for staff members in 1998 (1996 valuation), but reduced to 12% for all members from 1 January 2001 following the 1999 valuation.

The 1999 valuation recorded a healthy surplus of £6.3m. Good investment returns and other factors had outweighed the negative impact of benefit improvements, tax changes, and revised assumptions. Mortality assumptions had been changed in recognition of the trend towards greater longevity and investment return assumptions were more cautious than in previous valuations. Although the underlying rate for future service was 22.8%, the funding position was so strong that a contribution holiday would have been possible at this time, but a modest reduction in the rate was approved. Legislation required pension schemes to maintain a minimum level of funding, but did not permit overfunding.

The Clergy Personnel Commission had recommended changes to benefits for widows and in 2000 the widowed spouse's pension increased to 2/3rds, and the death in service lump sum to three times salary or stipend. The cost implications of these changes were considered reasonable and factored into the 1999 valuation assumptions.

By 2002 the position had deteriorated and the valuation showed a deficit of £1.2m. Poor investment returns had resulted in a past service deficit, and the full future service contribution rate of 22.2% therefore had to be met from contributions. The contribution rate including contribution adjustment to make good the deficit was 25.3% for the period 2004-2017 (this predated the legislation on Recovery Plans). The funding position improved by 2005 to a modest surplus of around £400K, but with the ongoing contribution rate of 25.4% the overall contribution rate was unchanged.

The 2008 valuation showed a material deterioration in the position of the Fund in relation to past service with the result that there was a shortfall of £8.8million. That deficit arose almost exclusively as a result of falls in the Fund asset values – in common with the experience of many pension funds at the time. The cost of future benefit accrual was calculated at 26% of stipend. A Recovery Plan, designed to pay off the deficit over a 15 year period, was put in place with the approval of General Synod and comprised a new contribution rate from

the beginning of 2009 of 34.9% of stipend (26% for future service and 8.9% towards the deficit) and a cash injection from the General Synod of £2 million.

2011 Valuation

The background for the 2011 valuation was the 15 year Recovery Plan referred to above.

The injection of the £2m lump sum from General Synod funds in February 2010 and higher than expected investment returns had resulted in a reduction in the deficit from £8.8m to £3m as at the end of 2011. However, the future service contribution rate had risen from 26% to 32.2%, mainly as a consequence of historically low gilt yields. Gilt yields are used in the actuarial valuation process to estimate the value of the liabilities. Gilt yield is the annual return on the market price of a Government Bond. In the current financial climate investors have been favouring traditionally safe investments such as bonds. The greater demand for Government stock has forced prices up, thus reducing the return on the investment.

The improvement in the past service funding position meant that progress with the Recovery Plan was ahead of schedule and that it would be possible to continue without increasing the contribution rate and still eliminate the deficit within the remainder of the 15 year period. The revised Recovery Plan resulting from the 2011 valuation will therefore be on the basis of a future service contribution rate of 32.2% and a deficit contribution of 2.7%.

Following the 2008 valuation the Trustees adopted an investment strategy designed to reduce the risk of volatility in the Fund value over time. This involves a gradual increase in the proportion of fixed interest investments whenever the Fund value rises above agreed trigger points. The strategy is beneficial in reducing the probability of major loss of Fund value, but has the unavoidable impact of reducing the assumptions for future growth as the proportion of fixed interest investments to growth investments in the portfolio increases. This in turn increases the value of the liabilities, pushing up the contribution rate, so further risk reduction in the portfolio at this time would not help. The Trustees will implement further risk reduction only when the funding level permits. Since implementation, the strategy had been successful in protecting the value of the Fund during turbulence in the world markets, and losses had not been as marked as might otherwise have been expected. If future projections for the Fund are realised, the funding level should be around 94% at the next valuation in 2014. However, at this time the Church is advised that there remains a 1 in 20 chance of the funding level decreasing to 84% which would result in the deficit increasing to around £9m, pushing the contribution rate up to around 40% thereafter. On the assumption that a total contribution rate of 35% is the maximum the Church can afford, the Church's pensions advisers have recommended reducing the ongoing contribution rate to 28% to allow for a deficit contribution of 7% that could become necessary if the outcome at the next valuation is worse than anticipated.

APPENDIX C

Illustration of implications of introduction of member contribution

Sections 8.3 – 8.5 outline the arguments for the introduction of a member contribution and conclude that the Standing Committee is not minded to introduce a member contribution at this time. Question 2 relates to this issue.

The following table illustrates the implication of an introduction of a member contribution rate of 5% (and a consequent reduction in the employer contribution to 29.9%). All the figures are based on current rates of stipend, tax and National Insurance.

	Current Position	Assume member contribution of 5%			
		No Stipend Increase	Neutral Net pay	Neutral Cost	Possible shared option
Cost to employer					
Standard stipend	23,270	23,270	24,725	24,080	23,720
Pension	8,121	6,958	7,393	7,200	7,092
National Insurance	2,178	2,178	2,379	2,289	2,240
	33,569	32,406	34,497	33,569	33,052
Net pay					
Standard stipend	23,270	23,270	24,725	24,080	23,720
Tax	(3,033)	(2,800)	(3,077)	(2,954)	(2,886)
National Insurance	(1,880)	(1,880)	(2,055)	(1,977)	(1,934)
Pension	-	(1,164)	(1,236)	(1,204)	(1,186)
	18,357	17,426	18,357	17,945	17,714
Changes from current position					
Stipend		-	1,455	810	450
		-	6.3%	3.5%	1.9%
Cost to employer		(1,164)	927	-	(517)
		(3.5%)	2.8%	-	(1.5%)
Net Pay		(931)	-	(412)	(643)
		(5.1%)	-	(2.2%)	(3.5%)

- Whilst the introduction of a member contribution of 5% without any increase in stipend is beneficial to the employer (cost to employer reduced by 3.5%) it results in a 5.1% reduction in net pay.
- Stipend would need to be increased by 6.3% to ensure that there was no reduction in net pay. Such an increase would increase the employer's costs by 2.8%.
- An increase of 3.5% in stipend would be cost neutral for the employer and would limit the reduction in net pay to 2.2%.
- There will be a range of possible increases in stipend which will reduce the impact on clergy of the introduction of a member contribution whilst still reducing the cost borne by the employer. The option shown (a 1.9% increase in stipend) reduces the employer's costs by 1.5% and limits the reduction in net pay to 3.5%.

APPENDIX D

Pensions Illustrations

Providing meaningful illustrations of the likely impact of the various options for change can be difficult. In some cases such illustrations involve estimates of potential rates of inflation and stipend increases over more than 40 years. What follows in the table below are illustrations of the likely impact for seven examples with a range of ages and existing periods of service. In all cases the potential future pension is expressed as a percentage of the equivalent pensions calculated using the existing scheme rules.

Accrual Rate

This is perhaps the simplest to illustrate. The impact of a change in accrual rate from the current basis (1/80^{ths}) to 1/95^{ths} (as described in sections 8.8 – 8.9) would be to reduce the amount of pension earned for each year of service following the change from 1/80^{ths} to 1/95^{ths} – a reduction of 15.8%.

Retirement Age

An increase in retirement age is slightly more difficult to illustrate. At present, retirement at 65 is possible – if an individual works beyond this age their starting pension is higher than it would have been at 65 both due to the accrual of further years (up to a maximum of 42 years' service) and to further increases in standard stipend (pensionable stipend) used as the basis for calculating starting pension. This contrasts with taking a pension at 65 and receiving annual increases on it in retirement. Increases to pensions in payment are governed by specific rules and are likely to be different to increases in standard stipend / pensionable stipend.

As explained at section 8.12 if the retirement age were to be increased it would still be possible to retire early at 65 – any pension earned before the date of change would be unaffected but the pension earned after the change would be subject to an actuarial reduction. Such reductions can be significant. At present the reduction applied when retiring five years early is approximately 40% - and that for retiring two years early is almost 10%.

In illustrating the impact of the option of increasing Normal Retirement Age to 70 two comparisons have been provided. One assumes an individual chooses to retire at 65 (as at present) and therefore suffers an actuarial reduction of five years in respect of future service pension. The other assumes retiring at 70 and seeks to compare the initial pension at 70 with that which the individual would receive under the current rules – ie applying five years' annual increases to an initial pension at age 65. (For the purposes of illustration it has been assumed that should the retirement age be increased to 70 there would be a corresponding increase in the maximum number of years service that could be accrued. The current cap of 42 years service would therefore not be applied to example individuals 1 and 5 in the table below. Should the 42 year cap be applied the *Retirement at 70* figures for these individuals would reduce from the 108.4% detailed in the table to 101.2%.)

Pensionable Stipend

The most difficult of the possible changes to illustrate is that involving any changes in the relationship between standard stipend and pensionable stipend. Such comparisons depend on a number of factors:

- Rate of inflation (whether CPI or RPI)
- Any caps placed on pensionable stipend when the agreed inflation measure (CPI or RPI) is running at high level
- Rates of actual stipend increase

The longer the period for which such comparisons are provided the greater the uncertainty.

At one extreme if inflation throughout the period was relatively modest and actual increases in standard stipend were never any greater than inflation then either of the suggested changes in assumption regarding pensionable stipend would have no impact on actual pension received. (The undertaking to limit future increases in pensionable stipend would however allow different assumptions to be used in the actuarial valuations which would result in lower rates of pension contribution.)

If however standard stipend increases at a rate greater than inflation (and therefore greater than pensionable stipend) there would be an impact on future pension. The greater the difference and the longer the period the more significant the impact.

Two possible changes are suggested in the consultation – limiting to CPI or RPI. CPI tends to be lower – hence if increases in pensionable stipend are limited to CPI the greater the likelihood that increases in standard stipend will exceed those to pensionable stipend and the greater the impact on future pensions. To reflect the fact that typically CPI is lower than RPI the illustrations assume a rate of CPI of 1% and RPI of 1.75%.

For purposes of illustration the standard stipend increases of 1.75%, 2.25% and 2.75% have been assumed.

(The key factor in considering the impact of any change to definition of pensionable stipend is the difference between the rate of inflation used (either CPI or RPI) and the actual increase in standard stipend. In periods of very high inflation it might be necessary to further limit increases in pensionable stipend – thus, assuming that standard stipend increases were roughly keeping pace with inflation, further increasing the difference between standard stipend and pensionable stipend and increasing the impact on future pensions.)

Whilst historic trends are not always an indicator of future patterns, brief information is provided in section 8.16 detailing average historic increases in RPI, CPI and standard stipend.

Suggested combination

The suggested combination is to limit increases in pensionable stipend to no more than RPI, increase Normal Retirement Age to 67 and leave the basis of accrual unchanged. Illustrating the impact of this therefore involves the same uncertainty involved in assumptions relating to increases in RPI and standard stipend. Two sets of illustrations are provided. One assumes an individual chooses to retire early at 65 and therefore suffers an actuarial reduction of two years in respect of future service pension. The other assumes retiring at 67 and compares this with the initial pension that would be earned under the current rules if an individual chose to retire at 67.

Example individuals	1	2	3	4	5	6	7
Age at date of change	25	40	40	50	50	60	60
Years of service prior to change	-	5	10	10	25	10	20

Percentage of pension calculated under current rules

Only Change - Accrual rate reduced to 95ths	<i>(Sections 8.8 - 8.9)</i>						
Retirement at 65	84.2%	86.8%	88.7%	90.5%	94.1%	94.7%	96.8%

Only Change - Normal Retirement Age increased to 70	<i>(Sections 8.10 - 8.13)</i>						
Early Retirement at 65 <i>(Compared with current pension at 65)</i>	77.4%	81.2%	83.9%	86.4%	91.5%	92.5%	95.5%
Retirement at 70 <i>(Compared with assumed pension at age 70 following retiral at 65 and five years pension increases)</i>	108.4%	112.5%	110.2%	115.7%	108.4%	128.5%	115.7%

Only Change - Pensionable Stipend limited to no more than CPI	<i>(Sections 8.14 - 8.18)</i>						
<i>(assumed CPI of 1%)</i>							
Retirement at 65							
Stipend increase of 1.75% (RPI: CPI + 0.75%)	74.4%	85.9%	87.9%	93.7%	96.1%	98.8%	99.3%
Stipend increase of 2.25% (RPI + 0.5%: CPI + 1.25%)	61.1%	77.9%	81.1%	89.9%	93.7%	98.0%	98.8%
Stipend increase of 2.75% (RPI + 1%: CPI + 1.75%)	50.3%	70.9%	75.1%	86.4%	91.5%	97.3%	98.4%

Suggested combination	<i>(Sections 8.19 - 8.21)</i>						
<i>No change to accrual rate / Increase Normal Retirement Age to 67 / Limit Pensionable Stipend to no more than RPI (assumed RPI of 1.75%)</i>							
Early Retirement at 65							
Stipend increase of 1.75% (RPI)	90.3%	91.9%	93.1%	94.2%	96.4%	96.8%	98.1%
Stipend increase of 2.25% (RPI + 0.5%)	74.2%	83.2%	85.6%	90.3%	94.0%	96.0%	97.6%
Stipend increase of 2.75% (RPI + 1%)	61.1%	75.6%	79.1%	86.8%	91.7%	95.3%	97.2%
Retirement at 67 <i>(Comparison with current pension if retiring at 67)</i>							
Stipend increase of 1.75% (RPI)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Stipend increase of 2.25% (RPI + 0.5%)	81.4%	89.5%	91.0%	95.0%	96.8%	98.6%	99.1%
Stipend increase of 2.75% (RPI + 1%)	66.3%	80.4%	83.1%	90.4%	93.8%	97.3%	98.3%