

## ARCHDIOCESE OF ST ANDREWS & EDINBURGH

### AICF or Clergy Retirement Provision update for Parishes

The Archdiocesan Management Committee asked for help from the Archdiocesan Finance Committee to renew the Aged and Infirm Clergy Fund (AICF) which was not fit for purpose. The AICF is the clergy retirement provision for diocesan clergy of this archdiocese.

In response to this appeal for help, a Working Group was formed with the AICF Management Committee, composed of Archdiocese Finance Committee, Curia staff, and Trustees.

This group proposed significant modifications to the AICF which were accepted at an EGM of the AICF on 5 June 2019.

Following the unforeseen and dramatic drop in clergy retirement contributions (as an effect of the pandemic lockdown) the Archbishop appealed to parish priests in January 2021 for funding contributions.

#### **Pension Crisis Committee**

This resulted in a much needed but temporary boost to the AICF balance.

Later in 2021, in order to address the on-going problem, the Archbishop formed a Pension Crisis Committee composed of clergy, curia staff and trustees.

The remit of this Crisis committee was:

- (a) to examine options for regular parish-based funding contributions from 2022 onwards.
- (b) to examine possible ways in which to reduce retirement allowances.

The conclusions reached by the Pension Crisis Committee were shared with parish priests and parish finance committees in the 'Facing the Challenge' Webinar \* communications in July & August 2021.

An indicative vote taken at the Webinars about how best to increase clergy retirement contributions clearly favoured a tiered increase to the existing parish assessment as the best way forward – and this recommendation was confirmed by the Trustees.

#### **Decree**

Accordingly, in September 2022 the Archbishop issued a Decree to increase the parish assessment, or levy, to include clergy retirement contributions. As a result of this Decree Parish Assessment rates are being increased on average from 17.5% to 31.5%.

This higher rate being in line with the average assessment rate of the other Scottish Dioceses.

These 2022 increased parish assessment invoices have now been issued. Based on 2021 parish income, this should generate £458k for the AICF, which will cover the 2022 clergy retirement costs.

This introduces clergy retirement contributions as another parish running cost, alongside utilities and building maintenance. Obviously, some parishes will shortly have to face difficult spending decisions in order to support this step-change increase.

To make the situation completely clear:

- There are currently 25 retired priests who receive retirement allowances (pensions). The cost of these 25 retirement allowances in 2021 was £390,000.

- The current balance of the Clergy Retirement Fund (AICF) is just below £1.9M. This figure includes the value of the sole AICF property and all AICF investments.
- At the current rate of expenditure and before the assessment was increased, the fund would have run out during 2026.

A working group of Trustees and Curia staff then reviewed the retirement provision made in the seven other Scottish Dioceses. In order to make these limited AICF funds last longer and be more equitably applied, they made recommendations for change to reduce costs.

These changes were approved by a majority of both College of Consultors and Trustees in October 2022, to be effective from 1 January 2023.

Beyond the above committed AICF or clergy retirement changes, please be aware that:

a) The Actuarial Review for 2022 is underway. The purpose of this review, by an external firm of actuary experts Willis Towers Watson, is to achieve an up-to-date estimate of the total clergy retirement provision needed.

b) Based on the 2018 actuarial report it was estimated there should be **£8.7M in the Fund** for currently retired clergy and the ‘reserves to-date’ for the 42 active clergy. Therefore, at end Dec 2021 and based upon that 2018 estimate, **there is a shortfall of £6,800,000** in the AICF Fund. This is due to many years of not saving for retirement during all of our clergy’s active ministry.

c) Since 2018, the situation has changed significantly – there is now a clear structure to the clergy retirement scheme and allowances. Key factors used by the actuaries such as interest rates; standard price indices and even mortality rates will have changed.

d) This 2022 updated estimate may increase or decrease the 2018 Estimate. This result will directly affect the size of the historic deficit which needs to be addressed.

e) It is unlikely that any change in estimate will reduce the assessment rate for regular parish-based contributions until the historic deficit has been largely resolved, as the annual retirement costs are the key influencer of parish-based contributions. These same contributions are variable as they in turn are based upon parish income. In current economic climate, parish income will probably drop with parishioner income.

To address the historic shortfall, significant single donations (or many small donations) will be sought from those who are able and willing to help. Many of our parishioners will be unable to donate, even when they do wish to contribute.

However, it would be prudent to allow the parish assessment rate changes to settle and finalise this 2022 actuarial review to achieve an updated estimate of the total clergy retirement provision before asking anyone for shortfall or historic deficit donations.

Based on the 2018 deficit estimate, it could take several decades to clear this historic shortfall. The AICF could not fund its expenditure in 1972, and there have been no regular contributions in place until now, so this deficit is over 50 years in the making. With the introduction of regular parish contributions, the deficit should not worsen. However, it is not known how generously the laity and wealthy parishes will donate to the £6.8M shortfall over the coming years and current economic times are harsh.

There will be further communications to parishes once the 2022 actuarial review has concluded.