

Pension Funds Frequently Asked Question: Opting Out

Question

Can a minister who is currently a contributing member opt of the Fund? What happens if he or she opt outs?

Answer

Contributing members of the Fund have a legal right to opt out, but doing so may have serious financial consequences for them, their family and / or their church. Accordingly, opting out is not a step to be taken lightly.

A member who opts out becomes a “deferred pensioner” and as a result:

- he or she will immediately lose the valuable rights they currently enjoy to augmented death in service benefits and potentially (for those who joined the Fund before April 2006) to augmented ill-health retirement terms;
- the pension they have built up to date will be increased between the date of opting out and retirement on the limited basis specified within the Fund rules, which include capped annual increases, rather than being increased in line with Minimum Pensionable Income.

In order to maintain accredited status, it will be necessary to provide alternative life cover for them, and doing this on an individual basis is likely to prove more onerous and costly than continuing such cover through the Fund.

Similarly, they will not be covered for the income continuation benefit on ill-health which the new defined contribution arrangements include. Such cover is not mandatory in order to maintain accredited status, but it is clearly desirable for members and we are advised that obtaining such cover on an individual basis is likely to be much more difficult and costly than being covered on a group basis by continuing in the ministers section of the new arrangements.

If a member opts out when he or she is the only contributing member of the Fund serving with their church, this potentially generates a cessation event. As described in the pensions bulletin for churches, this would have serious financial consequences for the church.