

Board of Pensions



**Special Report for the
2013 Annual Conference**

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Benefit Resources

Medical Benefits
Dental Benefits
Retiree Freedom Blue
Retiree AARP
Pension Plan Information
Annual Conference

upmc.com
metlife.com
highmarkbcbs.com
aarphealthcare.com
gbophb.org
wpaumc.org

Board of Pensions

2013 Conference Executive Summary

Your Conference Board of Pensions is pleased to provide you with a comprehensive update on the health care and pension programs provided for our eligible clergy and lay employees.

The enrolled and active employees in the **health care program** have access to UPMC Preferred Provider Organization (PPO) network, Met Life dental coverage, and a vision plan. During 2012, the Conference and local churches paid \$ 6.6 million for the health care benefits program, and the average number of members in the UPMC plan was 1,193.

Many of our **Medicare eligible retirees** are enrolled in either an AARP plan or a Freedom Blue Plan (Medicare Advantage) from Highmark. Retirees participate in an open enrollment each year and have the opportunity to select the plan that best meets the needs of their individual health situation. During 2012 the average number of member participants in these plans was 639 and the cost to the post retirement medical reserves was \$1.1 million. This \$ 1.1 million represents the combination of a monthly supplement to each qualifying member of up to \$126 toward the premium of the chosen plan and approximately \$89,000 (about \$11.61 monthly per member) toward basic dental coverage. The Accumulated Post-Retirement Benefit Obligation (APBO) for the continuation of these benefits to current and future retirees as valued by AON as of 1/1/12 is \$ 22.6 million and the expected APBO value is \$27.6 million.

The Conference uses the denomination's **Comprehensive Protection Plan (CPP)** for full-time clergy. This plan provides long-term disability partial income replacement benefits and death benefits to clergy and their dependents. The 2012 cost of the CPP program was \$641,477. In addition, the Conference Apportionment Budget provides funds to continue health care benefits. Proposed legislation at this year's conference would extend such support until qualification for Medicare or for two years following the qualification for CPP disability benefits, whichever ever comes first. During 2014, the total cost of the medical plan for participants on CPP disability included in the apportionment budget is approximately \$234,000.

The pension plan has evolved over the years and is currently in three main segments based on when service was earned. Years served prior to 1982 are covered by the Pre-1982 segment. This

is a defined benefit segment and our Conference portion is overfunded. Since 2007, approximately \$3 million annually has been redirected to fund the current defined benefit earned by our participating clergy.

Service years from 1982 to 2006 earned a benefit under the **Ministerial Protection Plan (MPP)**. During this period, each church paid 12% of cash compensation plus a 25% housing allowance to meet the pension obligation if their clergy lived in a parsonage. This segment of the plan is a defined contribution plan. Beginning in 2014, the benefit will be such that 65% will be converted to an annuity income or defined benefit payment stream, with the balance managed by the participant.

Service years from 2007 forward earn pension credits in the **Clergy Retirement Security Plan (CRSP)**. This segment has both defined benefit and defined contribution accumulation. To date the defined benefit portion has been funded by redirecting overfunded assets from the Pre-1982 plan. The defined contribution portion of 3% of cash compensation plus a 25% housing allowance is funded by each church if the clergy live in a parsonage. In addition, a 2% Benefit Reserve Fund contribution is required to protect from severe market situations, modifications in the mortality tables, and/or changes in projected market performance into the future.

On the following pages, you will find additional details of financial resources supporting the Pre-1982 pension service years, post-retirement medical reserves and liabilities, the status of our active medical reserves, and the Carnahan retiree grant funds.

Terry E. Lyon, Pension Board Chair

Ed Bailey, Pension Board Vice-Chair

William Hastings, Secretary

Pat Morris, Conference Treasurer, Conference Benefits Officer

Don Scandrol, Cabinet Representative

Administrative Committee

Gary Grau, Ralph Culp, Bob Zilhaver

Finance Committee

Steven White, Barbara Holcomb, John McKee,

Tom Parkinson, Jim Reese

Health Care Committee

Don Inman, Larry Homitsky, Michael Studeny

Assets Maintained by the Conference Board of Pensions

The Conference Board of Pensions (CBOP) maintains significant assets as shown below to meet the Conference's active health care and post-retirement benefit obligations, as well as the pension obligations under the pre-1982 pension plan and the various components of the Clergy Retirement Security Program (CRSP).

	31-Dec-11	31-Dec-12
General Board of Pensions		
Pre-1982 Pensions	109,492,777	<i>See below</i>
Working Capital Needs	1,253,866	1,127,536
Health Care		
Active Employee Health Care Funds	4,499,237	4,972,247
Deposit Account	17,206,405	19,435,207
Retiree Health Acc't	4,545,235	5,170,740
Health Insurance Reserve Fund	476,793	520,005
Retiree Health Care Funds	22,228,433	25,125,952
Sub Total - Health Care	26,727,670	30,098,199
Pension Benefits		
Carnahan	2,072,114	2,227,815
Undesignated		
Pension Permanent Annuity	8,337,278	9,092,877
Benefit Reserve Deposit Account	2,793,685	4,343,195
Sub Total - Undesignated	11,130,962	13,436,072
Total CBOP Assets	41,184,612	46,889,623

Note: *The 2012 Pre-1982 Valuation of Assets will be determined following updated Actuarial Reports from the General Board*

Pre-1982 Plan

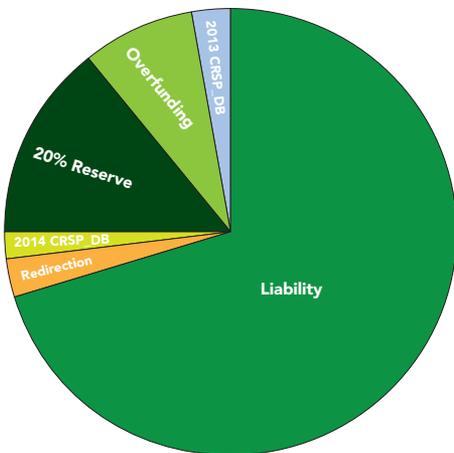
The General Board of Pension and Health Benefits of The United Methodist Church (General Board) administers the retirement plan known as the "Pre-1982 Plan", covering substantially all United Methodist clergy for service prior to 1982. The Western Pennsylvania Annual Conference portion of the plan is currently significantly overfunded. On January 1, 2011, the valuation date that is used to determine any contributions that may be due for 2013, Conference assets in the plan were \$125,587,442

and liabilities were estimated to be \$77,633,362 creating an overfunding of \$47,954,080, resulting in a funded ratio of 162%. At the most recent valuation date of January 1, 2012, plan assets were \$109,492,777, while projected liabilities were \$77,049,700 resulting in a funded ratio of 142%. The reduction in plan assets resulted from a small investment loss, benefit payments, and redirection of plan assets to meet contribution requirements for the MPP and CRSP DB retirement plans, as well as to build assets to meet post-retirement medical obligations.

Given the significant overfunding in the Pre-1982 Plan, the Conference Board of Pensions (CBOP) intends to continue utilizing this overfunding to meet our obligations under the CRSP DB plan. Pre-1982 Plan assets were redirected to meet 2012 required contributions to the CRSP DB plan in the amount of \$2,982,958. Additionally, we plan to redirect \$2,971,576 to meet 2013 obligations. In managing the assets needed to meet the pension obligations for Pre-1982 service, the CBOP intends to maintain assets at a level of at least 120% of projected liabilities.

Status of Pre-1982 Plan at January 1, 2012

The full circle represents the total funding of	\$109,492,777
The direct pension liability of	■ \$ 77,049,700
20% of Liability as Reserve	■ \$ 15,409,940
Redirection for 2013 CRSP-DB	■ \$ 2,971,576
Redirection for 2014 CRSP-DB	■ \$ 2,235,275
Redirection for Post-Retirement Medical	■ \$ 3,000,000
Overfunding	■ \$ 8,826,286



Omitted from the above analysis are the market changes, pension payments, and actuary adjustments since January 1, 2012. January 1, 2013 data will be available in the fall of 2013.

Working Capital

The funds shown as working capital are maintained to meet current needs which may arise, for example, as a result of delays in receiving local church deposits. We attempt to maintain these funds with a balance equal to two-months needs. The funds are invested to permit immediate access in the event of an identified need.

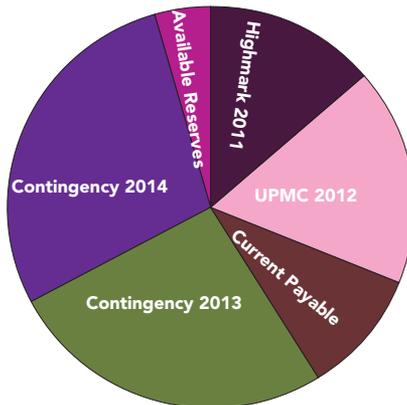
Active Health Care

Reserves have been established to meet unexpected liabilities for current employee and clergy health benefits. Our guidelines for these accounts are to maintain a balance to cover an amount approximately equal to two years of the gap between the health insurance costs allocated to the churches and our maximum liability under the contract with our health insurance provider. These funds are invested with a view to their short-to-medium-term need.



Status of Active Health Care Reserves at January 1, 2013

The full circle represents the total medical reserves of	\$ 4,972,247
Contingency 2014	\$ 1,400,000
Contingency 2013	\$ 1,300,000
UPMC 2012	\$ 864,220
Highmark 2011	\$ 685,332
Current Payable UPMC	\$ 500,000
Available Reserves	\$ 222,695



Overview of Medical Premium, Expenses and the Status of Funds with UPMC

Health Plan Year	2011	2012
Monthly Billing Rate	\$1,240	\$1,240
Receipts:		
Health Care Billing		
Medical Insurance Premiums	\$7,693,422	\$7,346,010
Dental Premiums	\$329,688	\$316,473
Total Plan Year Receipts	\$8,023,110	\$7,662,483
Disbursements:		
Health Care Disbursements		
Highmark (2010-2011) & UPMC (2012)	\$7,147,806	\$7,242,626
MetLife Dental	\$436,518	\$430,952
Plan Year Settlements	\$685,332*	\$864,220**
Fees and other Disbursements	\$67,985	\$49,645
Total Plan Year Disbursements	\$8,337,641	\$8,587,443
Net Plan Year Receipts (Disbursements)	\$(314,531)	\$(924,960)

*Settlement with Highmark paid 2013

**Settlement with UPMC paid 2013

Post-Retirement Benefits

Retiree Health Care

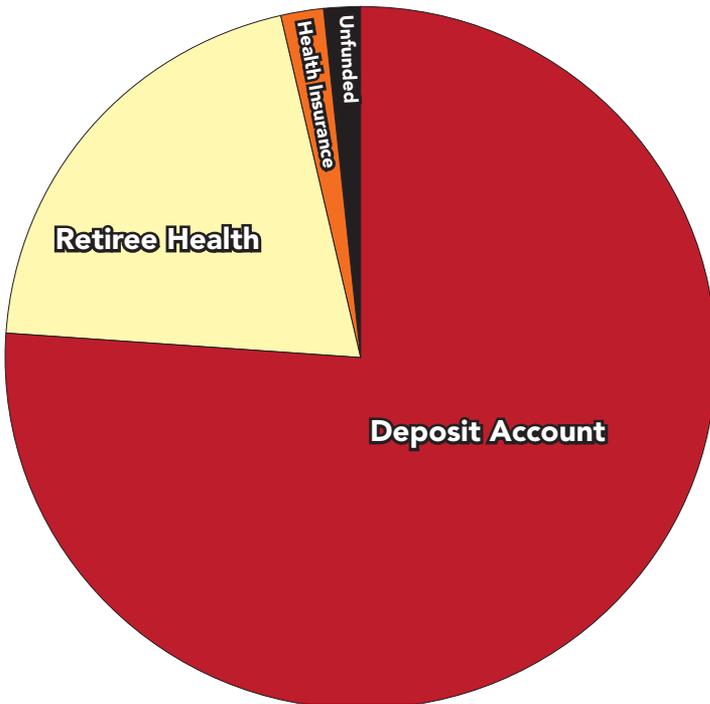
The reserves for retiree health care have been established to provide health care coverage for those clergy (and their dependents) who retire prior to reaching age 65 and meet certain years of service requirements. Additionally, for Medicare eligible retirees, a supplement of \$126 per month is provided. The most recent valuation at January 1, 2012 estimated our accumulated (earned) post-retirement medical obligation to be \$22,550,763 and the expected post-retirement medical obligation (includes expected but unearned benefits) to be \$27,647,132.

Over the past few years we have sought to build our reserves to the point where they approximate our expected obligation. In 2011, we redirected approximately \$4.5 million of surplus from the Pre-1982 retirement plan to further this goal. Given the continuing surplus in the Pre-1982 account, we intend to continue to review the benefit of further redirections to cover our retiree medical obligations. From an investment perspective, the obligations that these assets cover stretch well into the future. Thus, we have taken a long-term approach with these assets and have invested them with a greater percentage of equities than held in the working capital and active health care accounts.



Status of Postretirement Medical and Dental Obligation of January 1, 2012

The Post-retirement Medical and Dental Obligation of the Conference is funded by several accounts under the auspices of the Board of Pensions. These accounts include the Deposit Account and Retiree Health Insurance Deposit Account held at the General Board in Evanston, IL and the Health Insurance Reserve Fund held at the United Methodist Foundation. The following chart depicts the status of the obligation as of December 31, 2011, which is the latest date of the actuarial study.



The full circle represents the total funding of \$22,550,763.

■ Deposit Account	17,206,355
■ Retiree Health Deposit Account	4,545,235
■ Health Insurance Reserve Fund	476,793
■ Unfunded	322,380

Pension Carnahan Funds

The funds held in the **Carnahan Trust** are permanently restricted and only the income from this trust may be used to meet pension support needs of clergy, dependents or employees. Awards are granted from the income of this trust annually to help meet the retirement needs of those without adequate retirement income.

Undesignated Reserves

Pension Permanent Annuity

The **United Methodist Foundation** has acted in the role of trustee of various funds that have been gifted to the Conference and its predecessors, as well as to the Foundation and its predecessors to provide for the health and retirement benefit of retired clergy and spouses. These funds are held in an account at the Foundation entitled Pension Permanent Annuity. We have taken the position that these Permanent Annuity funds are restricted and that only the income may be expended to provide retirement or retiree health benefits. The income from the Permanent Annuity has accumulated over time and as of December 31, 2012 the balance in the income account stood at \$2,196,995. In the future, we anticipate designating these funds to meet our expected CRSP DB obligations or our retiree medical benefits. Given the long term nature of these potential obligations, the funds are invested in the Unified Account at the Foundation.



Benefit Reserve Deposit Account

The Benefit Reserve fund was established recognizing the need to make future contributions to the CRSP DB retirement plan and to fund other liabilities such as retiree medical. The creation of this fund recognizes the limited number of years that redirections from the pre-1982 plan may be available. The account is funded by the assessment of 2% of each active CRSP participants' compensation package. Since the fund has been established to meet pension and retiree obligations, the assets are invested in the same manner as the assets held in those accounts.

2014 Pension Obligations for Churches*

Clergy, treasurers, and finance committees should use this worksheet to determine 2014 pension responsibilities for CRSP, CPP, and Benefit Reserve payments.

Step A Calculate Clergy Compensation

1. Enter your 2014 salary plus any deferred compensation \$ _____
 - a. Multiply by 125% to adjust for housing if the pastor lives in a parsonage \$ _____
x 125%
 - b. Amount of cash housing allowance if pastor does not live in a parsonage, if applicable \$ _____
2. This is your Plan Compensation \$ _____
 - a. Add Line 1 plus a. if pastor lives in a parsonage
 - b. Add Line 1 plus b. if pastor does not have a parsonage

Step B Determine Clergy CPP Payment

1. Multiply Plan Compensation by 3% x 3%
2. This is your CPP Payment \$ _____
3. Divide by 12 to determine monthly payment \$ _____

Step C Determine Clergy CRSP Payment

1. Multiply Plan Compensation by 3% x 3%
2. This is your CRSP Payment \$ _____
3. Divide by 12 to determine monthly payment \$ _____

Step D Determine Clergy Benefit Reserve Payment

1. Multiply Plan Compensation by 2% x 2%
2. This is your Benefit Reserve Payment \$ _____
3. Divide by 12 to determine monthly payment \$ _____

Step E 2014 Local Church Pension Obligation

1. Add Line 2 from Step B, C, and D, annually \$ _____
2. Add Line 3 from Step B, C, and D, monthly \$ _____

**per appointed clergy*

2014 UMPIP Contributions Clergy Worksheet

Step A Calculate Your Compensation

1. Enter your 2014 salary plus any deferred compensation \$ _____
 - a. Multiply by 125% to adjust for housing if the pastor lives in a parsonage \$ _____
x 125%
 - b. Amount of cash housing allowance if pastor does not live in a parsonage, if applicable \$ _____
2. This is your Plan Compensation \$ _____
 - a. Add Line 1 plus a. if pastor lives in a parsonage
 - b. Add Line 1 plus b. if pastor does not have a parsonage

Step B Determine Your UMPIP Payment

1. Multiply Plan Compensation by 1%* \$ _____
 2. This is your minimum UMPIP Payment \$ _____
 3. Divide by 12 to determine monthly payment** \$ _____
-
-

** This is the minimum required contribution. If you are already contributing on a monthly basis to UMPIP and your current contribution equals or exceeds the 1% required, no additional contribution is required.*

***This monthly amount will be deducted from your salary and submitted by your treasurer to the General Board of Pension.*

You are not limited to the 1%. In 2013, you are able to contribute up to \$17,500 maximum per year. The 2014 contribution maximum is not yet available.



Western PA Conference
The United Methodist Church