



Pension Officers Forum—Africa, October 2022



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Sustainability of Pension Plans



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*Managing Director, Church
Relations*

Sustainability: Maintain Founding Criteria

Governance: adequately trained Board of Pensions

Documentation: plan description or plan document

Administration: equipped and trained benefits officer

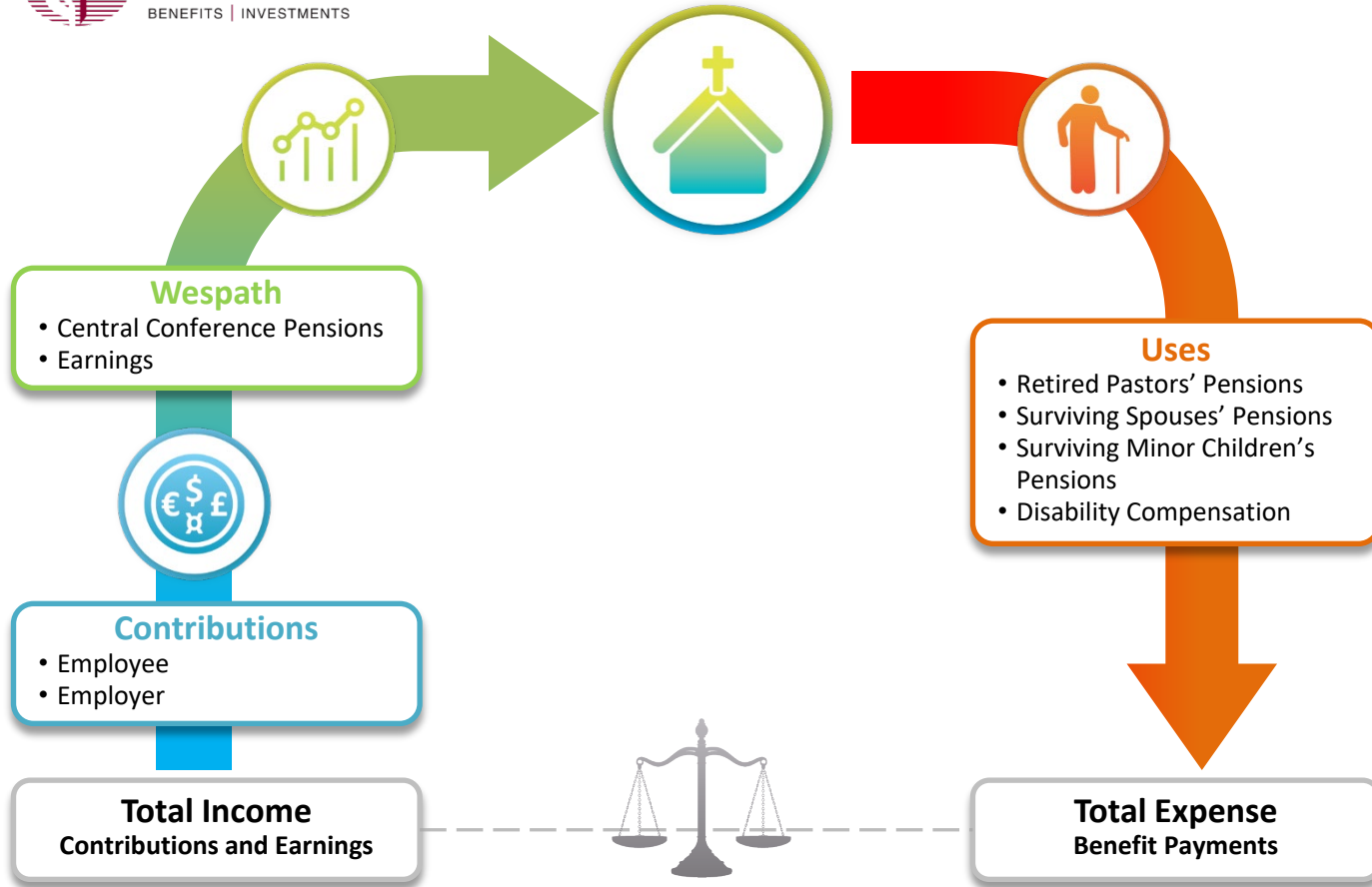
Discrete bank account for pension funds

Current government registration

Accurate clergy records



Pension Fund



Funding Stream Contributions

- Plan participants
 - Clergy
 - Conference lay staff
- Churches
- Central Conference Pensions



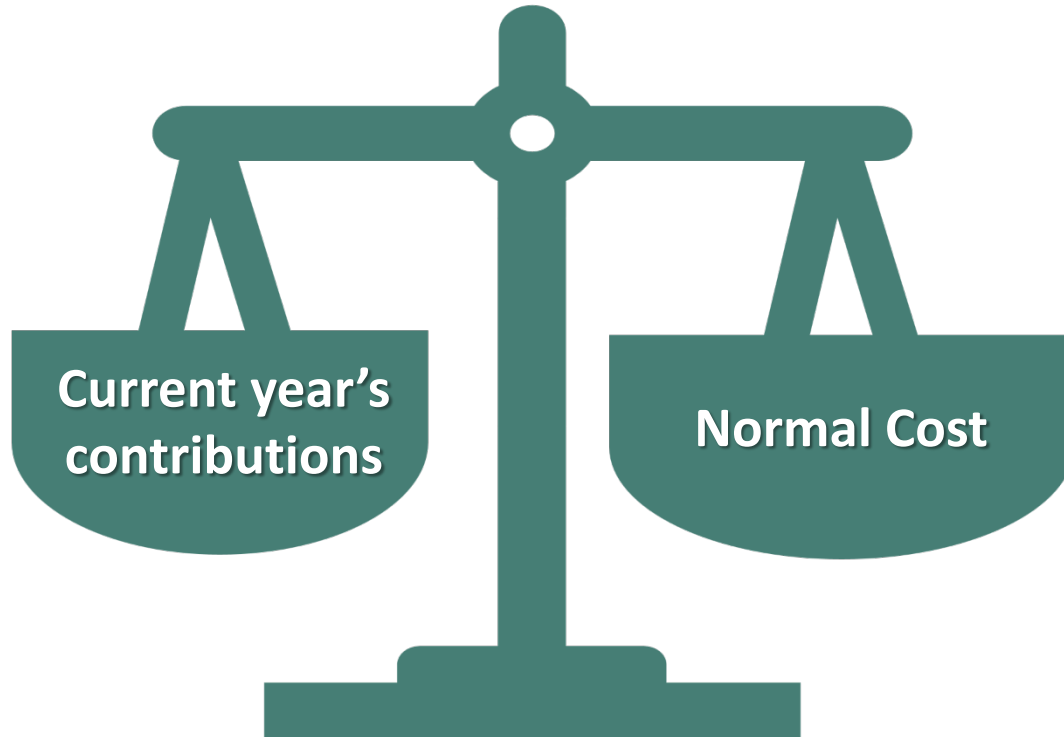
Sustainable Funding Stream

- Contribution sources
 - Church
 - Pastor or employee
 - Other
- Normal cost: amount needed to fund current year's benefits



Unsustainable: Earning benefits with no contributions to pay for it

Sustainable Funding Stream



Sustainability Concepts

- Pay for benefit when it is earned, not when it is paid
- Normal cost calculation includes assumed earnings over time
- Missed contribution has double impact
 - Value of the contribution
 - Earnings on that contribution



Example—Impact of a Missed Contribution

- \$100 is not contributed
- Assume long-term earnings of pension fund assets = 7% annually
- Pension fund shortfall from missed \$100:

1 Year	10 Years	30 Years	40 Years
\$107	\$197	\$761	\$1,497



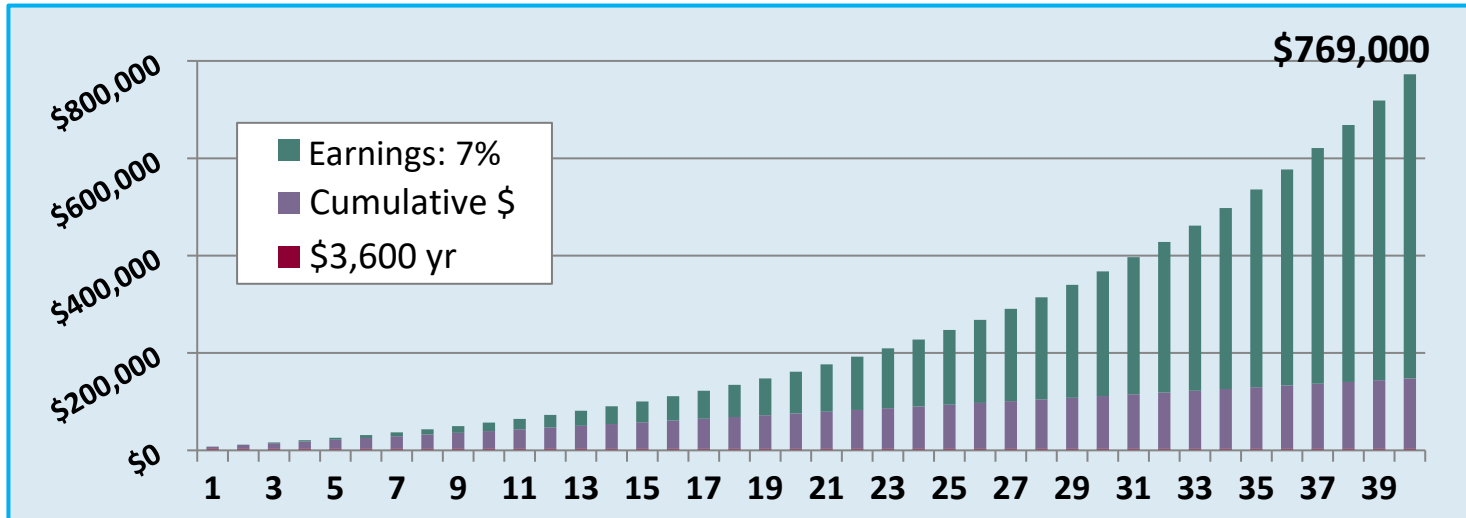
Compounding—Concepts Summary

- Compound earnings are a major element of pension plan funding
- Timeliness of contributions is important
- Money deposited today is worth more than money deposited next year
- Missing or late contributions mean the plan must raise more money



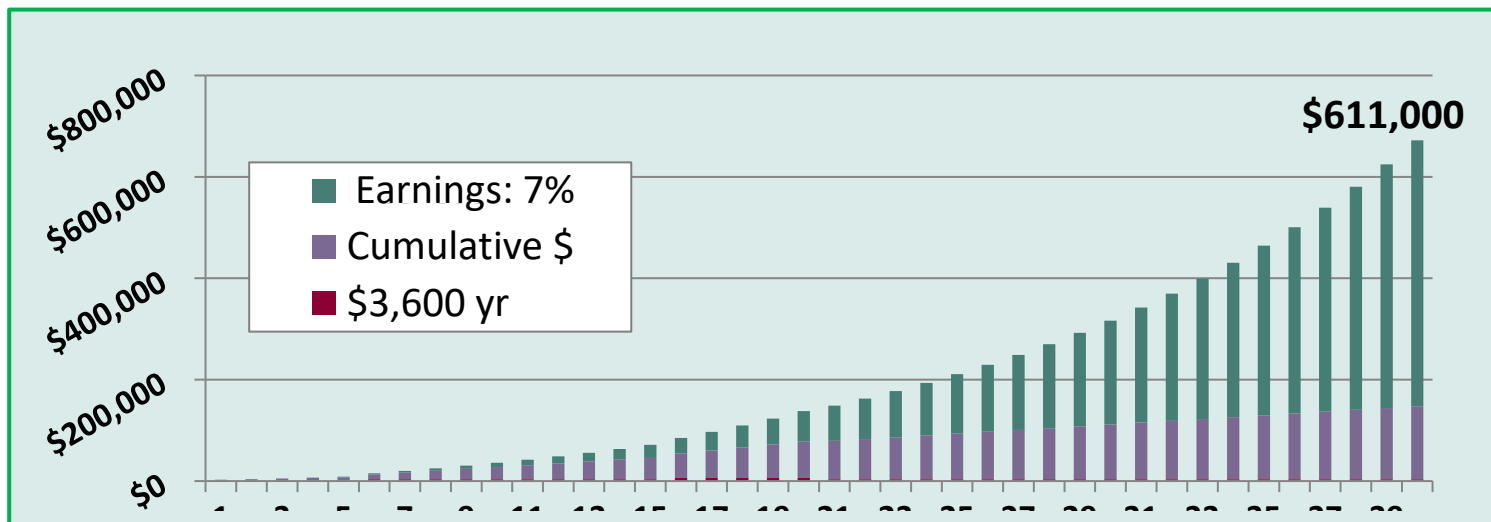
Compound Interest—A Graphical Example

- \$3,600 deposited each year for 40 years
- $\$3,600 \times 40 = \$144,000$ total deposits
- 7% annual earnings



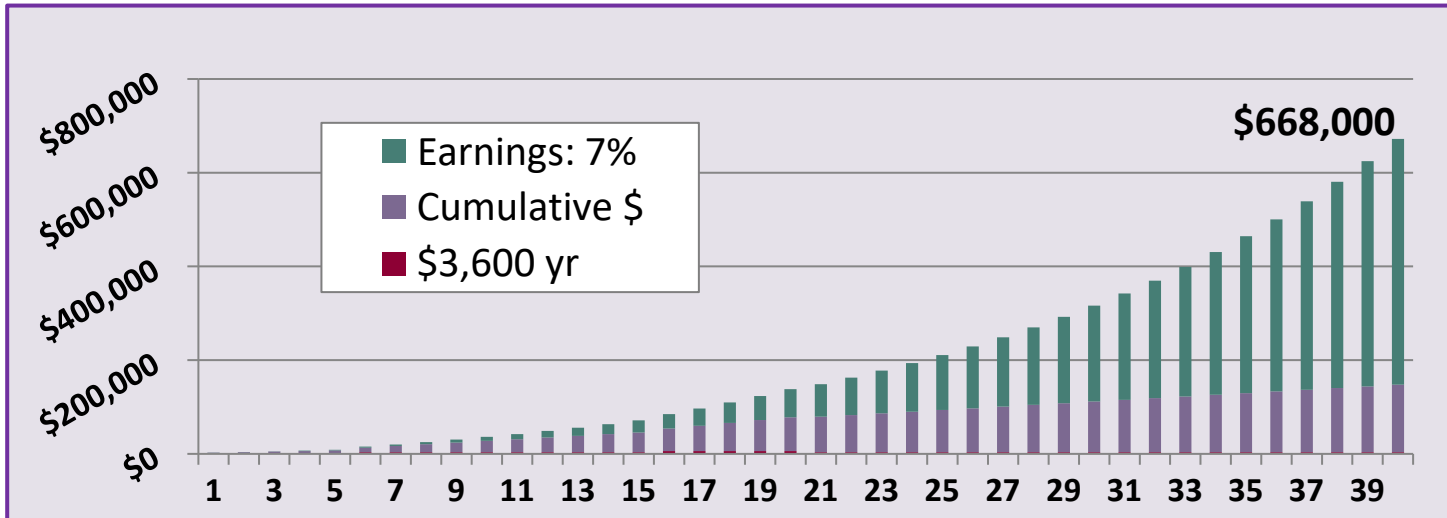
Impact of Missed Contributions

- \$1,200 deposited annually for first five years
- \$3,600 deposited annually in years 6–40
- \$132,000 total deposits

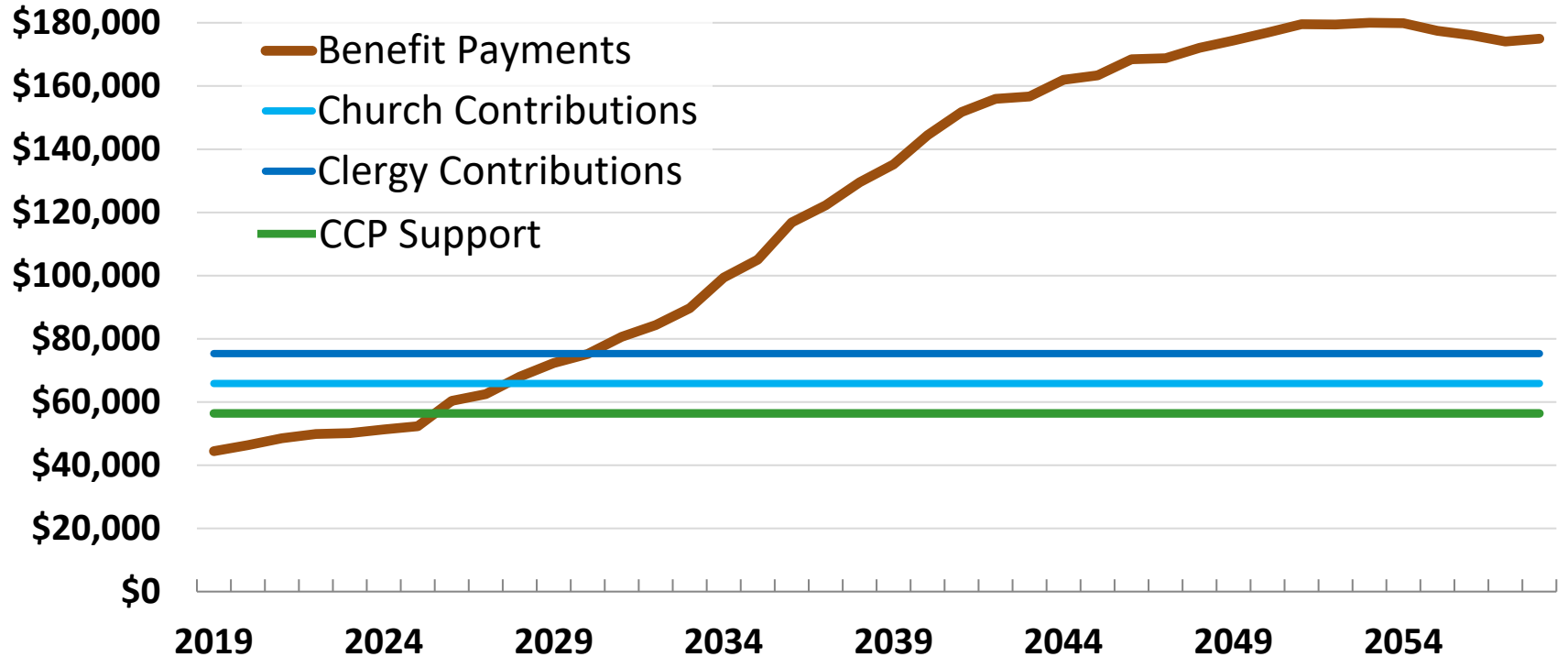


Impact of Late Contributions

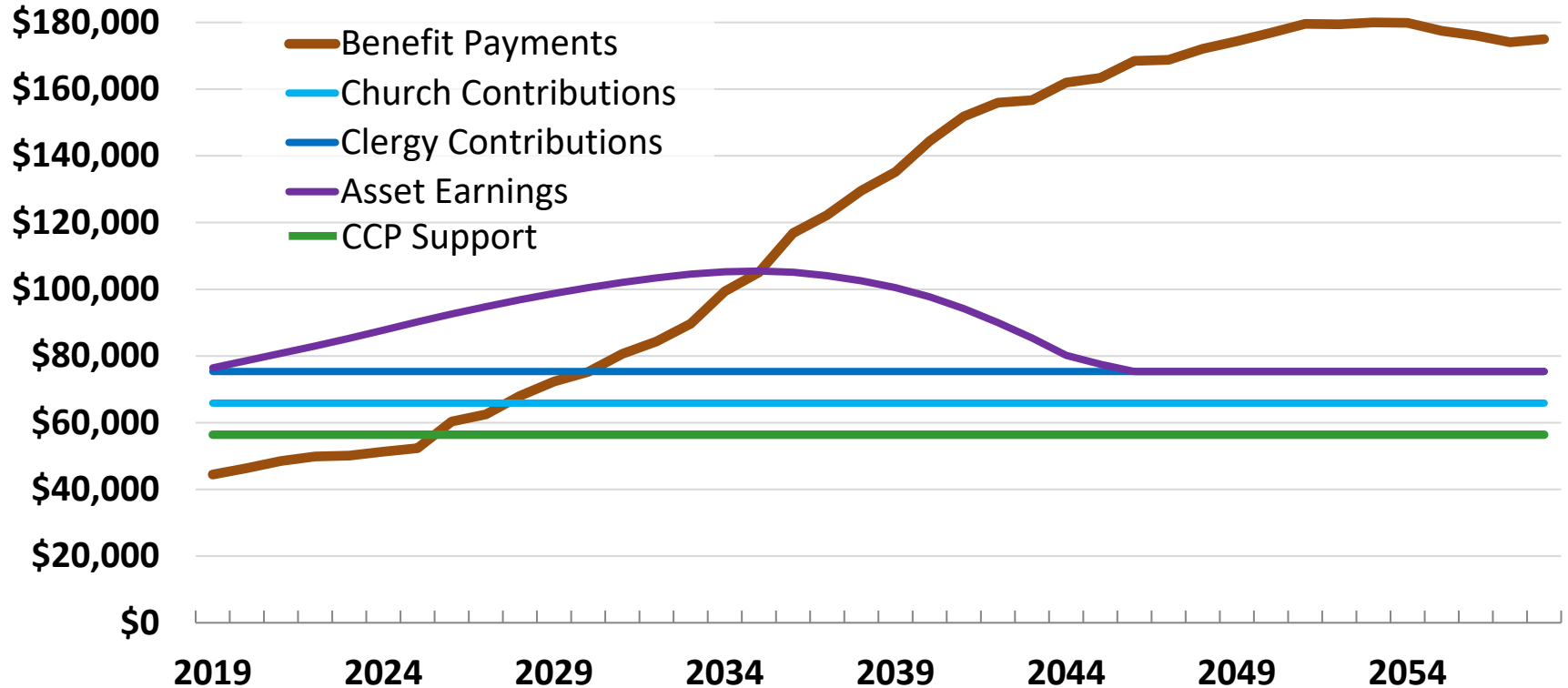
- \$1,200 deposited annually for first five years
- \$2,400 extra deposited each of years 16–20
- \$144,000 total deposits



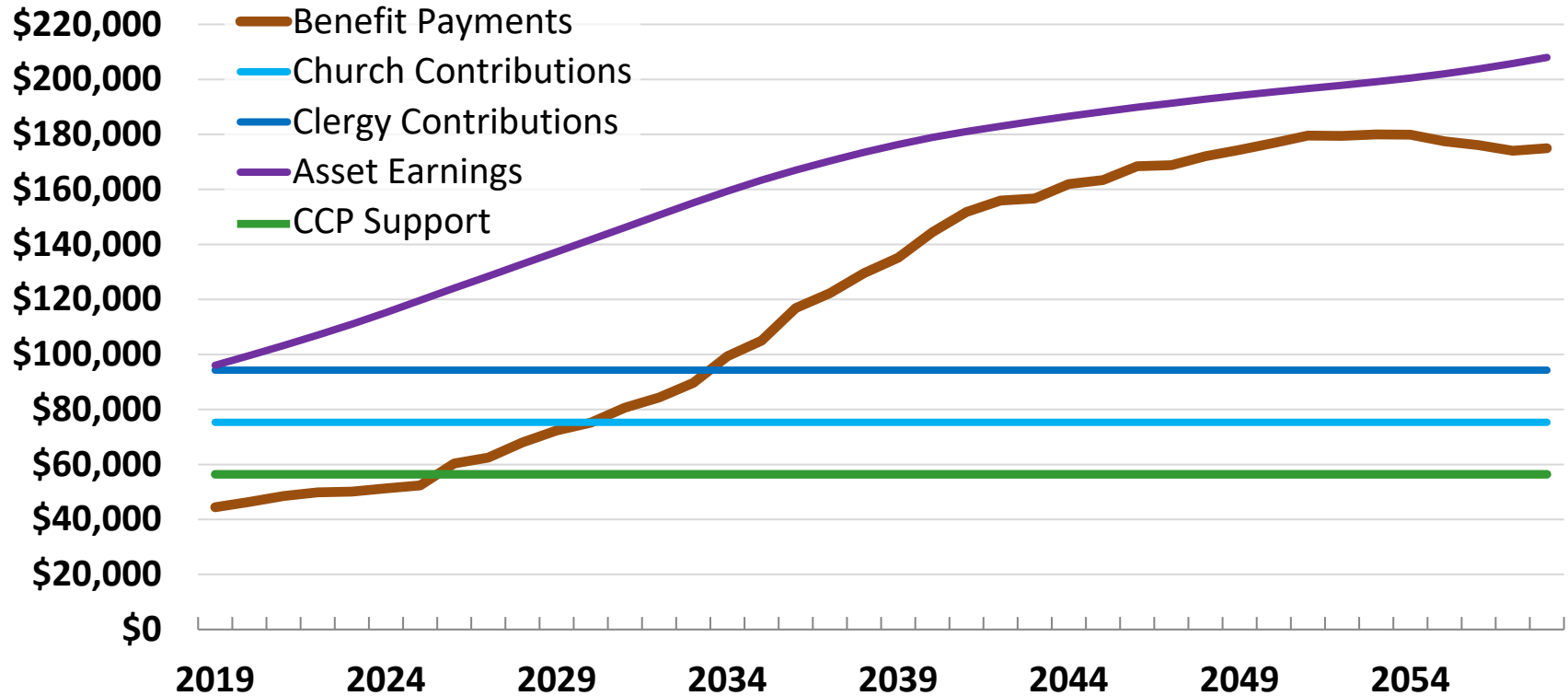
Pension Plan Cash Flow Example



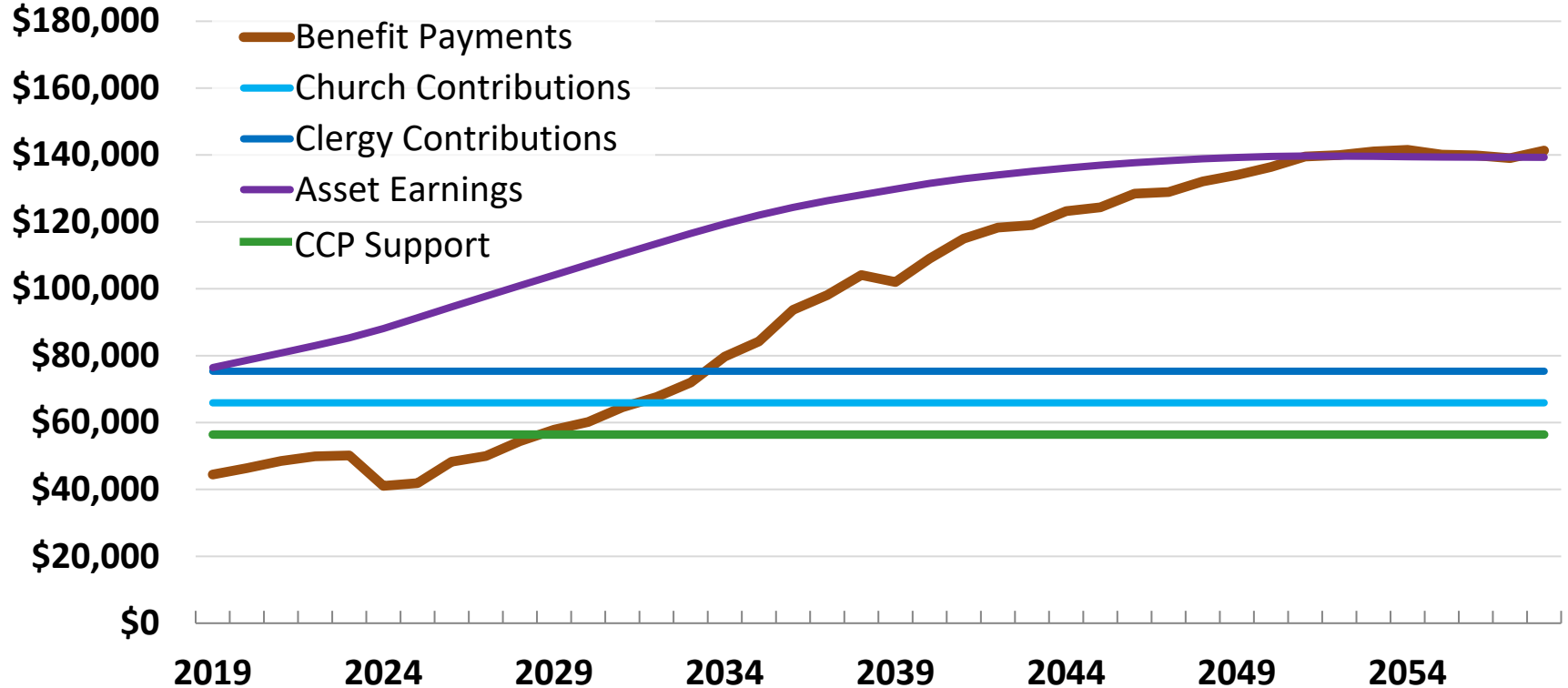
Pension Plan Cash Flow with Asset Earnings



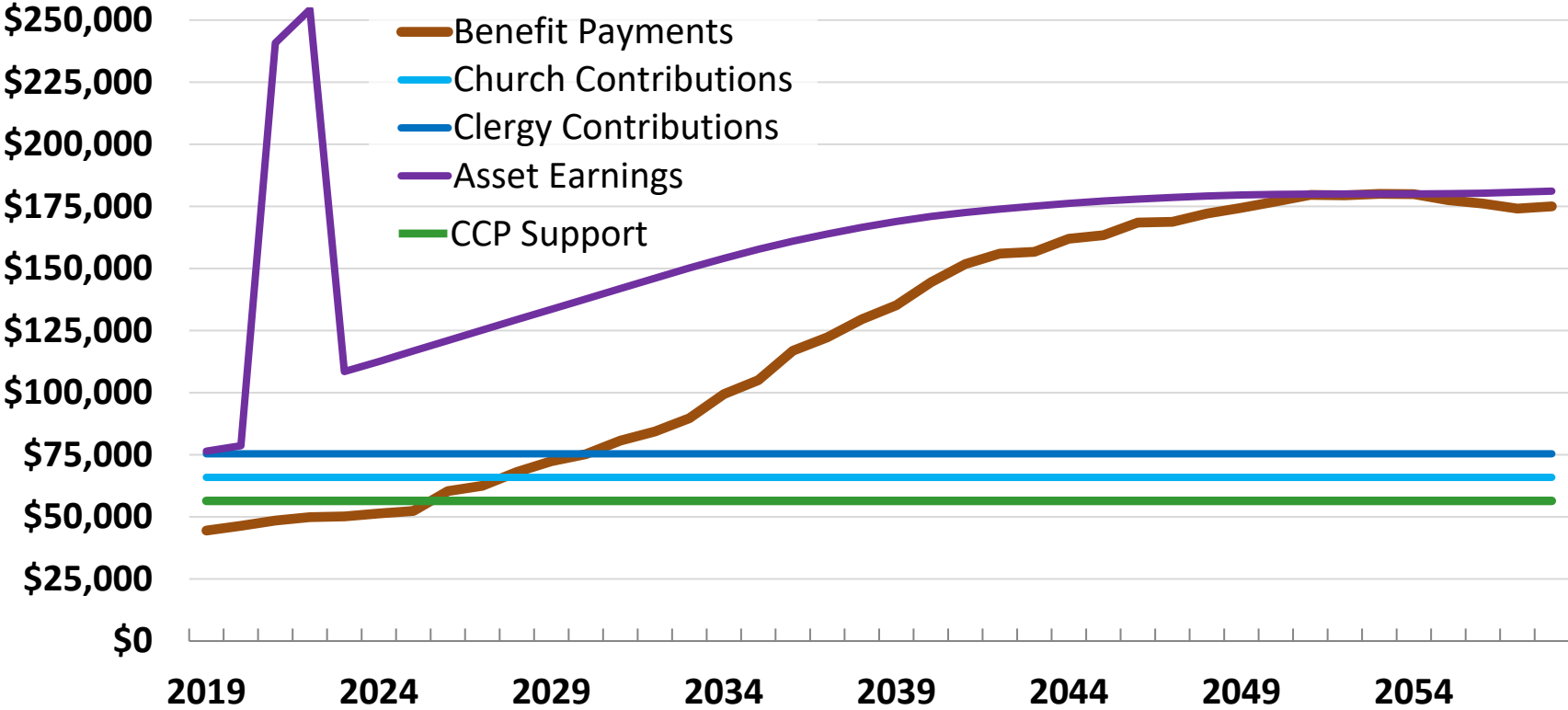
Increase Contributions from 4% to 6%



Reduce Benefits 20%, Then Reduce Another 5%



Two Large Extra Contributions, Years 3 and 4



Remedies to Achieve Financial Sustainability

- Increase church or clergy contributions, or both
- Reduce the cost of pension benefits
 - Benefit formula or amount
 - Vesting rules, eligibility
- Find an additional source of funds
- A combination of the above



Other Sustainability Tools and Processes

Accurate data

Actuarial valuations

Audits

Legal review of plan

Benefits education

Investment policy



Your Partner for Sustainable Pension Plans

Wespath Support

- Consulting on plan provisions
- Actuarial analysis
- Investment management



Wespath CCP Team

(l to r): Dale Jones, Ross Lundstrom,
Michelle Robinson and Thomas Kemper



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