



Wespath

BENEFITS | INVESTMENTS

Estimated Actuarial Valuation Results— January 1, 2023

Conference Forum | April 2023



Agenda

- Refresher: Valuation Basics
- Funding Discount Rate Update
- Valuation Results
- Withdrawal Liability
- CRSP-DB Contribution Adjustments





Valuation Basics

Valuation Basics

Actuarial valuation presents the plan's:

- **Assets**
- **Liabilities**
 - Today's value of future expected benefit payments
- **Funded ratio**
 - $\text{Assets} / \text{Liabilities}$
- **Contributions**



Valuation Basics: Asset Returns

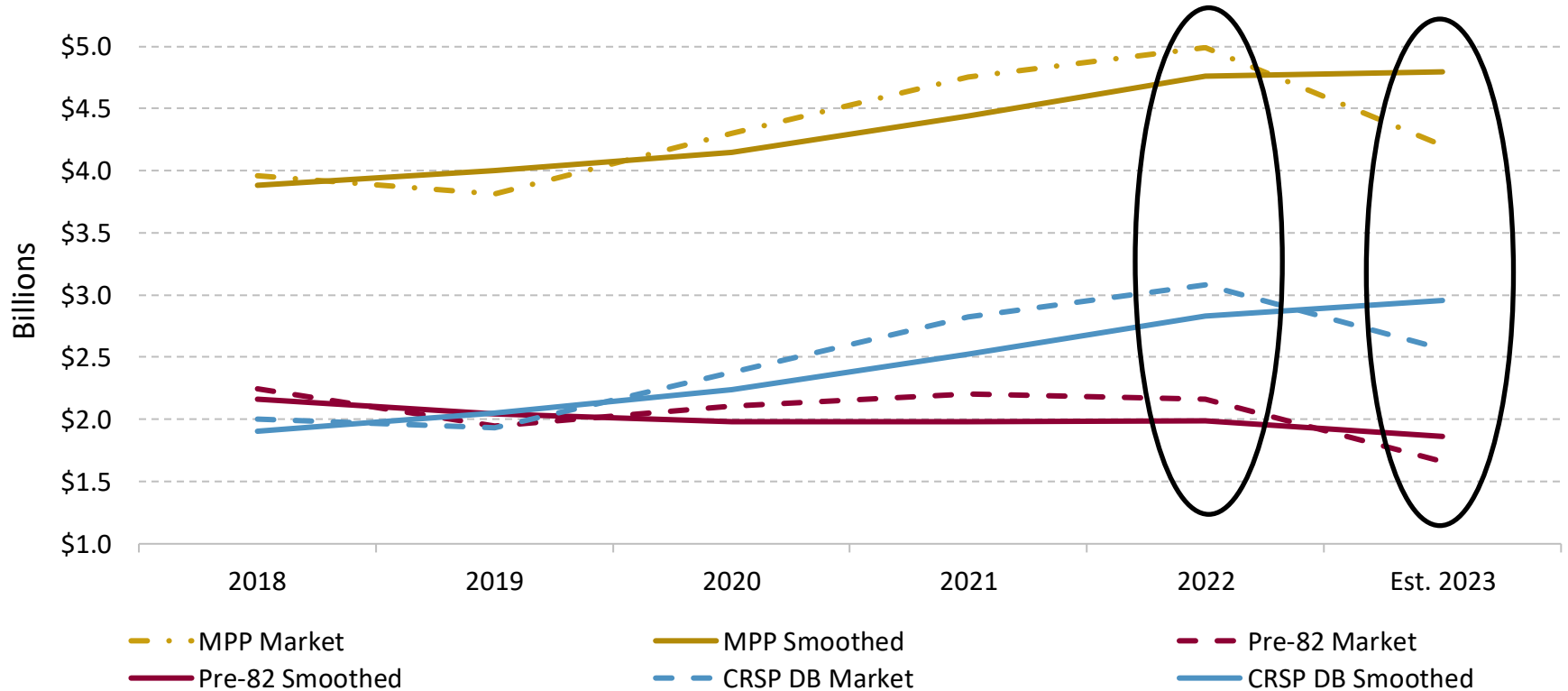
		2021 Returns		2022 Returns	
	% In Equity	Actual	Expected	Actual	Expected
CRSP DB	65%	8.8%	7.00%	-16.6%	7.00%
MPP Annuities	40%	6.4%	6.25%	-13.1%	6.25%
Pre-82	41%*	6.7%	5.50%	-14.8%	5.50%

* The Pre-82 “% In Equity” was 45% in 2021

Valuation Basics: Asset Smoothing

- Actuarial gains and losses on assets recognized incrementally in smoothed assets over 5 years
 - Actuarial gain or loss on assets is the return **above or below the expected return**
 - 20% of actuarial gain or loss will be recognized in each of the 5 years following the gain or loss
- Smoothed asset value—not allowed to go **below 80%** or **above 120%** of the market value of assets

Valuation Basics: Asset Smoothing



Valuation Basics: Types of Valuations

- **Funding valuation**
 - Based on long-term assumptions
 - Discount rate based on expected return on assets
- **Market valuation**
 - Based on current market conditions
 - Discount rate based on current corporate bond yields



Funding Discount Rate Update

Funding Discount Rate

- Based on long-term expected rate of return of assets backing the liabilities
- Expected Rate of Return is based on the Capital Asset Pricing Model (CAPM)
 - Produced annually by the Wespath Investments department
- Because the CAPM is impacted by the current market
 - Near-term returns may change significantly year over year



Mitigate the Volatility Due to CAPM

- Annually develop a range of acceptable discount rates based on the new CAPM
- Width of range varies based on equity exposure for the plan



- Don't change the existing discount rate if within the range

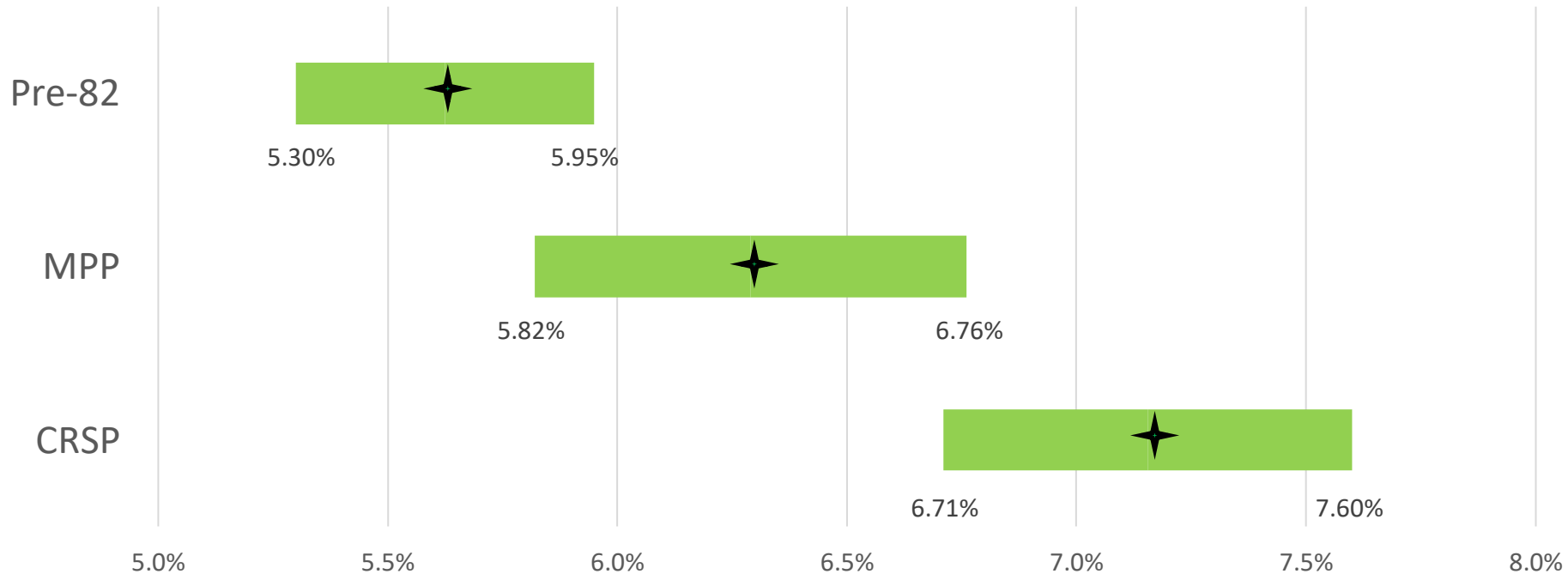


- Update discount rate if outside range



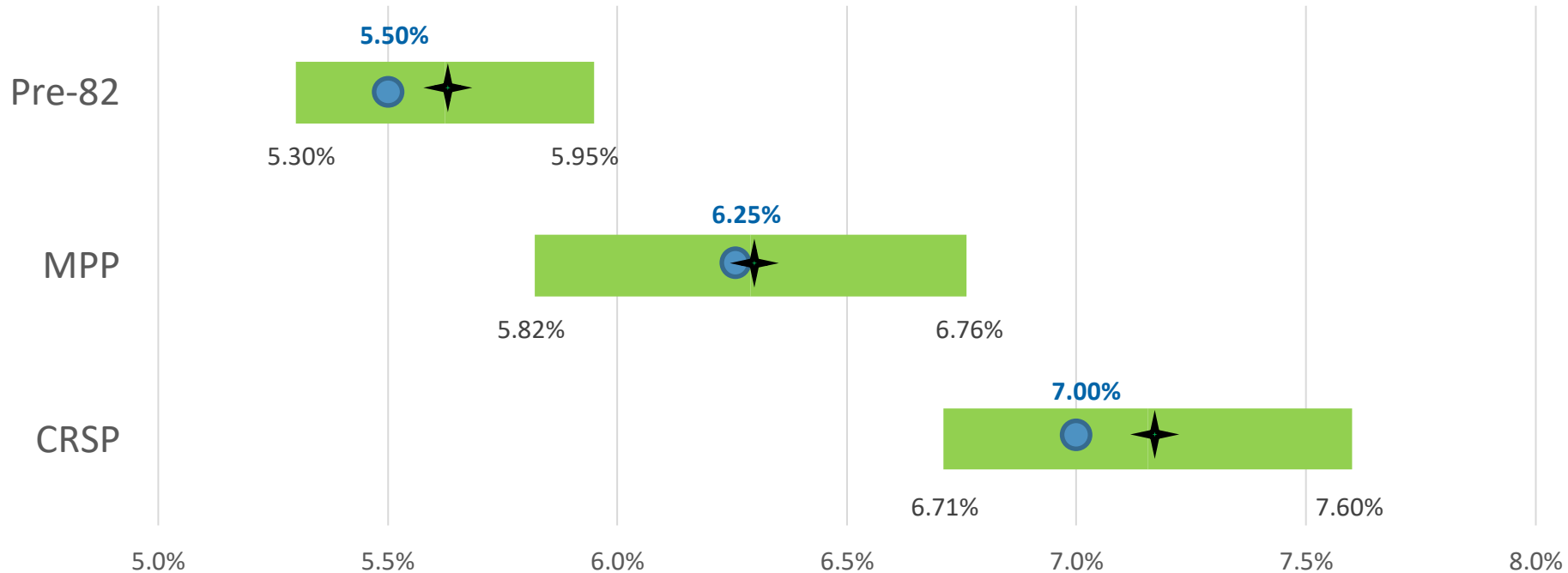
Mitigate the Volatility Due to CAPM

2023 Discount Rate Ranges



Mitigate the Volatility Due to CAPM

Existing Discount Rate



2023 Funding Discount Rates

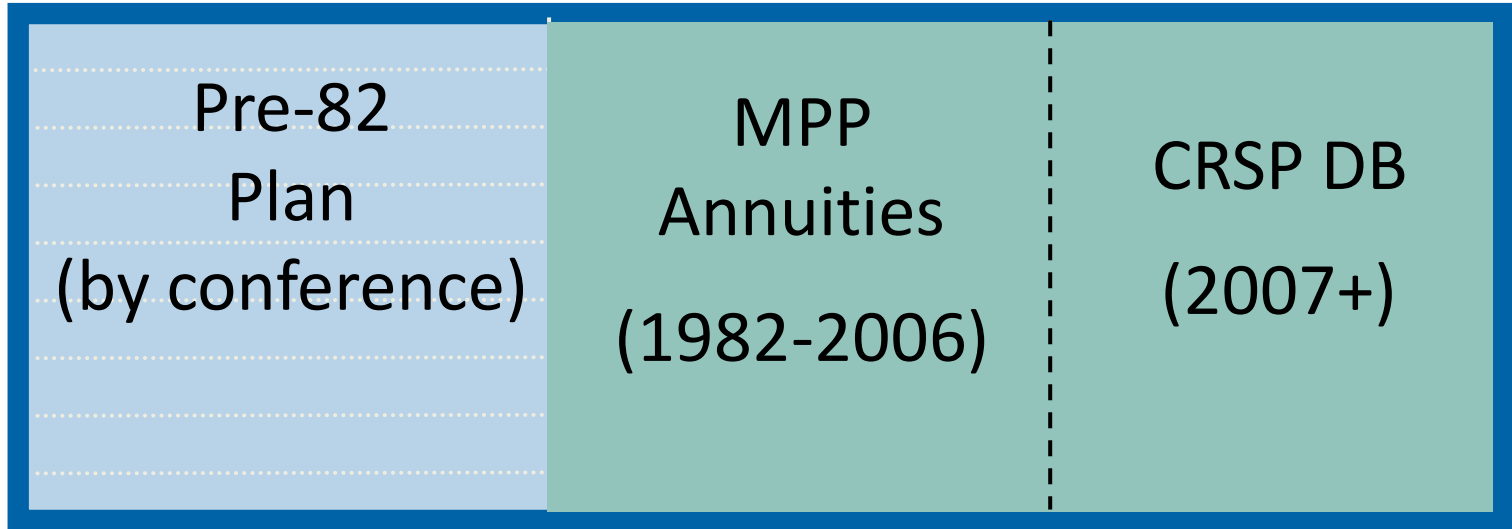
- All existing discount rates were inside the range
- No changes to funding discount rates for 2023
- Rates will be evaluated annually against the range and **may change in the future**
 - Expect Pre-82 to decrease gradually with movements down the Pre-82 glide path
- Discount rates will be reset to the midpoint of the range once a quadrennium

Plan	2023 Discount Rate
CRSP-DB	7.00%
MPP	6.25%
Pre-82	5.50%



Valuation Results

Valuation Results for Clergy DB Plans



MPP: Ministerial Pension Plan
CRSP: Clergy Retirement Security Program

Corridor Plan



Corridor Funding

Corridor Plan Funded Ratio

Estimated Funded Ratio— Funding Basis

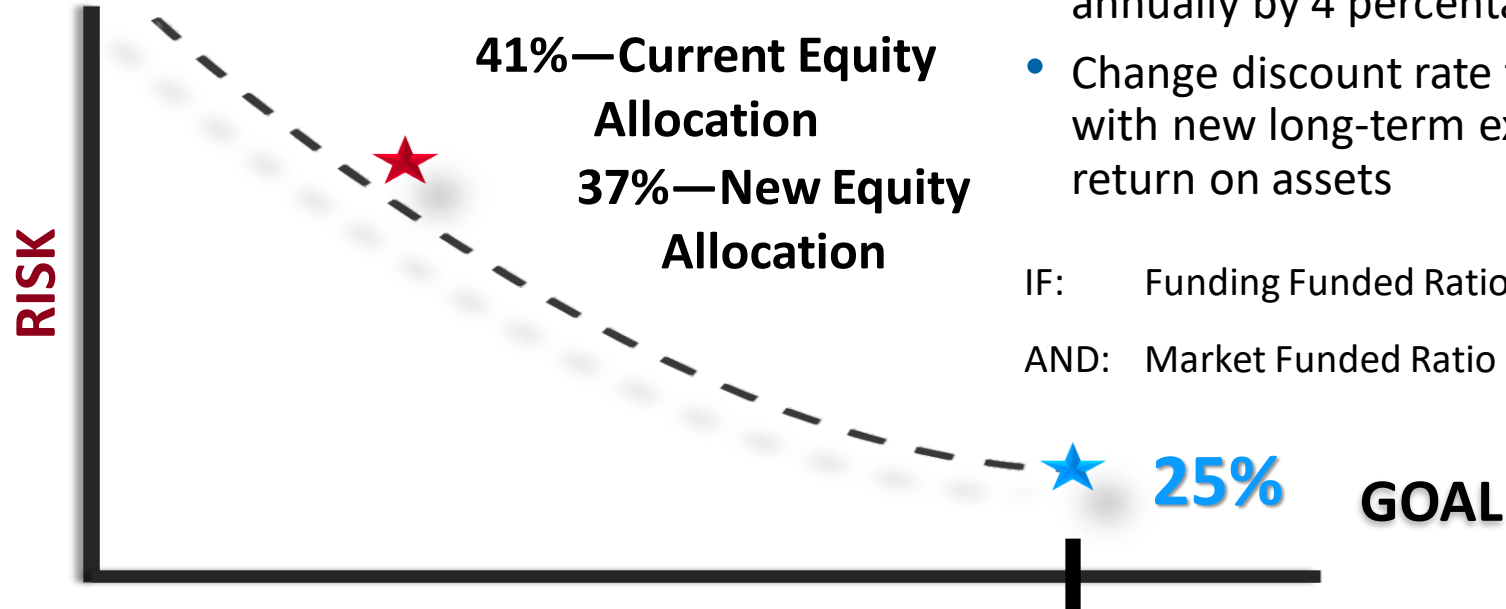
	January 1, 2022	January 1, 2023
CRSP DB	124%	122%
MPP Annuities	130%	128%
Combined	128%	126%

Contributions based purely on Normal Cost: \$80 million for 2023
and \$79 million for 2024



Pre-82 Funding

Pre-82 Plan Glide Path



- Reduce equity risk exposure annually by 4 percentage points
- Change discount rate to align with new long-term expected return on assets

IF: Funding Funded Ratio > 90% 

AND: Market Funded Ratio > 80% 

Pre-82 Glide Path Actions in 2023

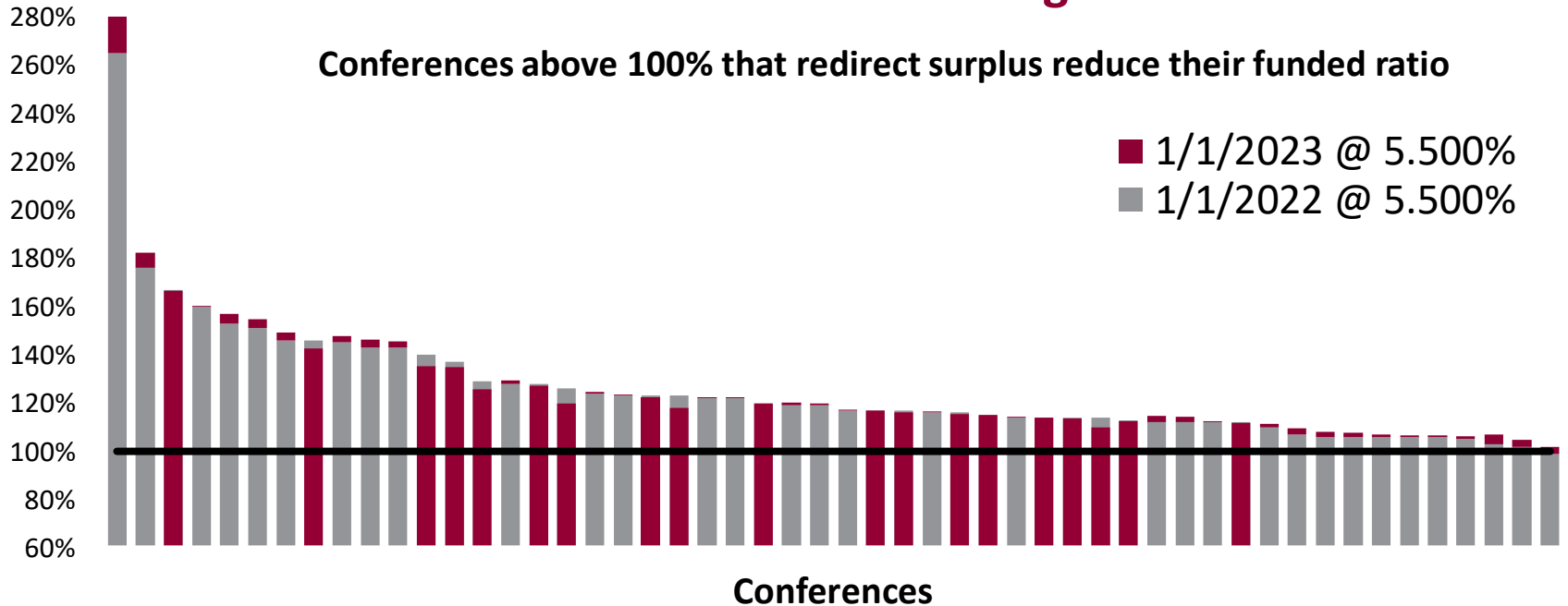
Equity allocation: **decrease from 41% to 37%**

Discount rate for January 1, 2023 liabilities:
5.500%, no change from 2022

Estimated Funding Change in Pre-82 Plan

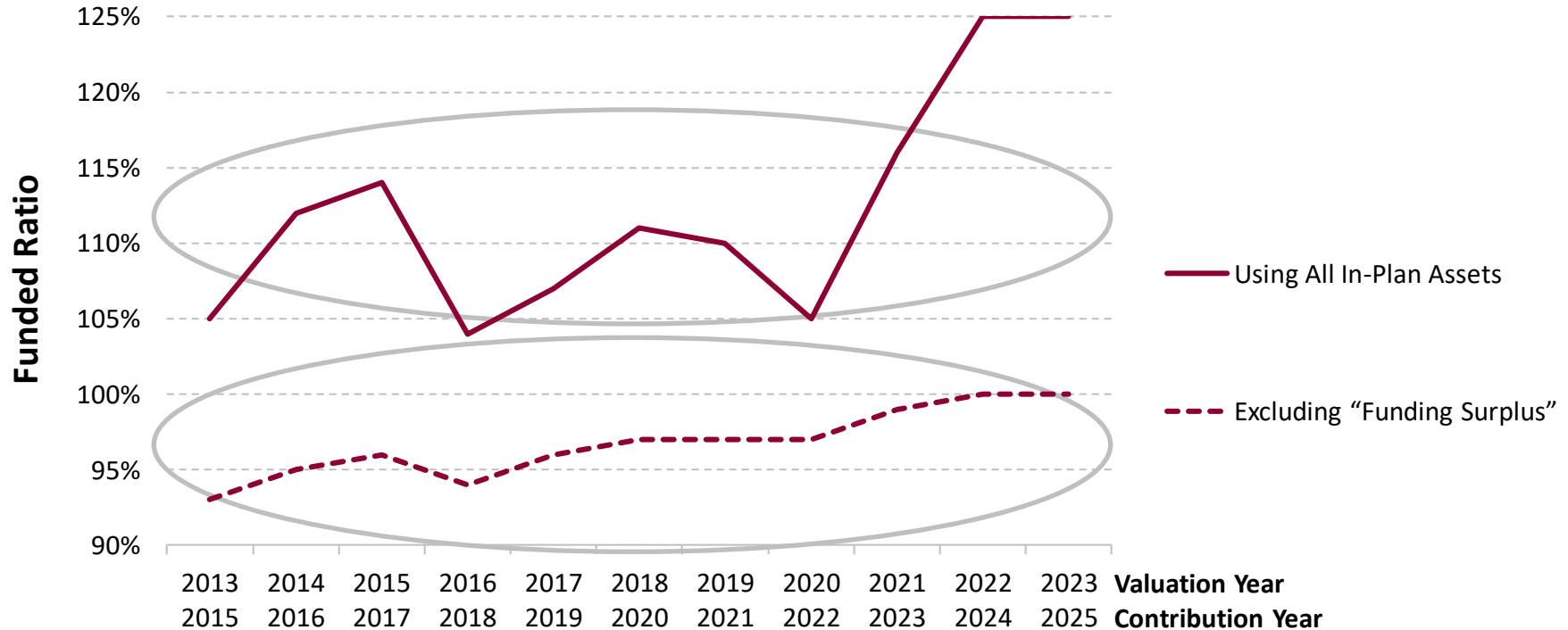
Funded Ratio* —Funding Basis

Conferences above 100% that redirect surplus reduce their funded ratio



* Assuming no change in Past Service Rate (PSR)

Valuation Results Pre-82 Funded Ratio History—Funding Basis





Withdrawal Liability

Withdrawal Liability

What is it?

- Liability of a conference in accordance with *Book of Discipline* ¶1504 as amended by General Conference 2019 petition 90016

How is it used?

- In the determination of the unfunded liability of a conference who then assigns a portion of that underfunding to a separating church

What assumptions does it use?

- Market discount rates and market value of assets
- PSR and DAC increases
- 5% risk transfer premium (reduced from 10% effective July 1, 2022)

Historic Interest Rate Environment: 10-Year T-Bill Yields

January 2022 to Date



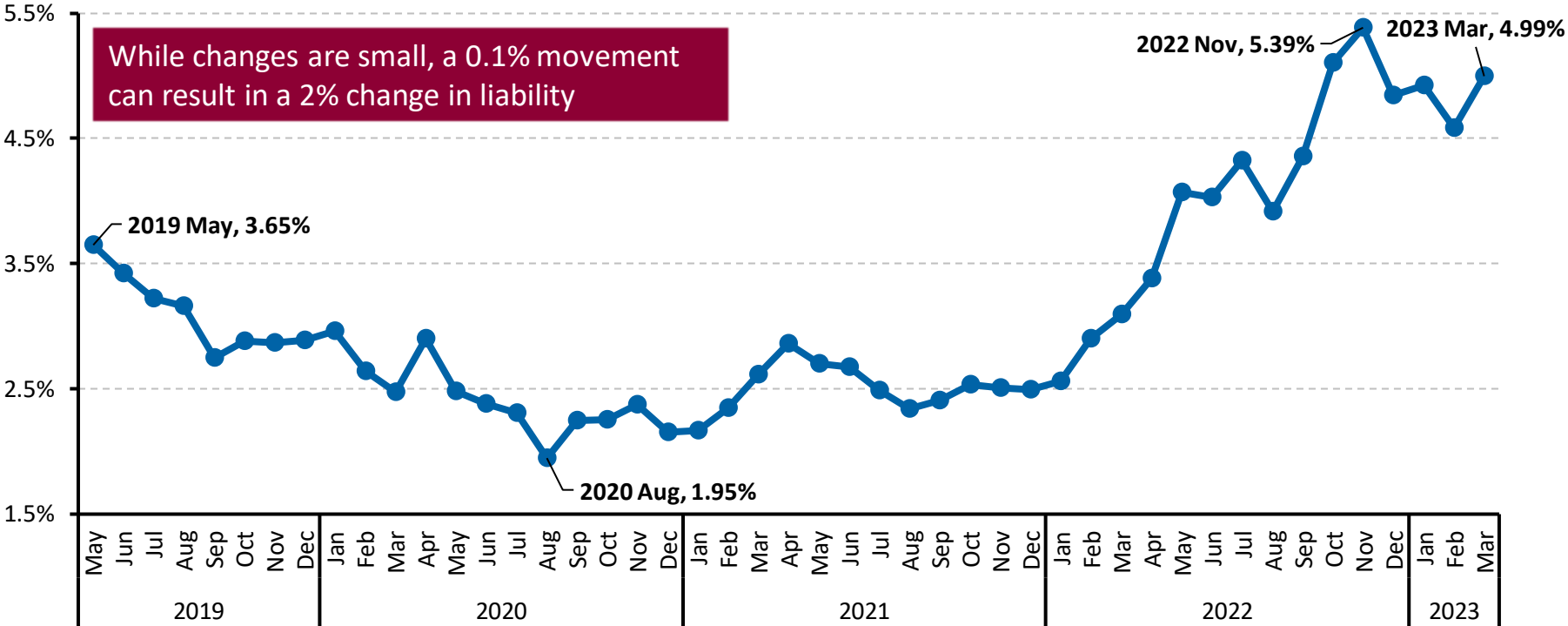
Historic



Source: <https://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart>

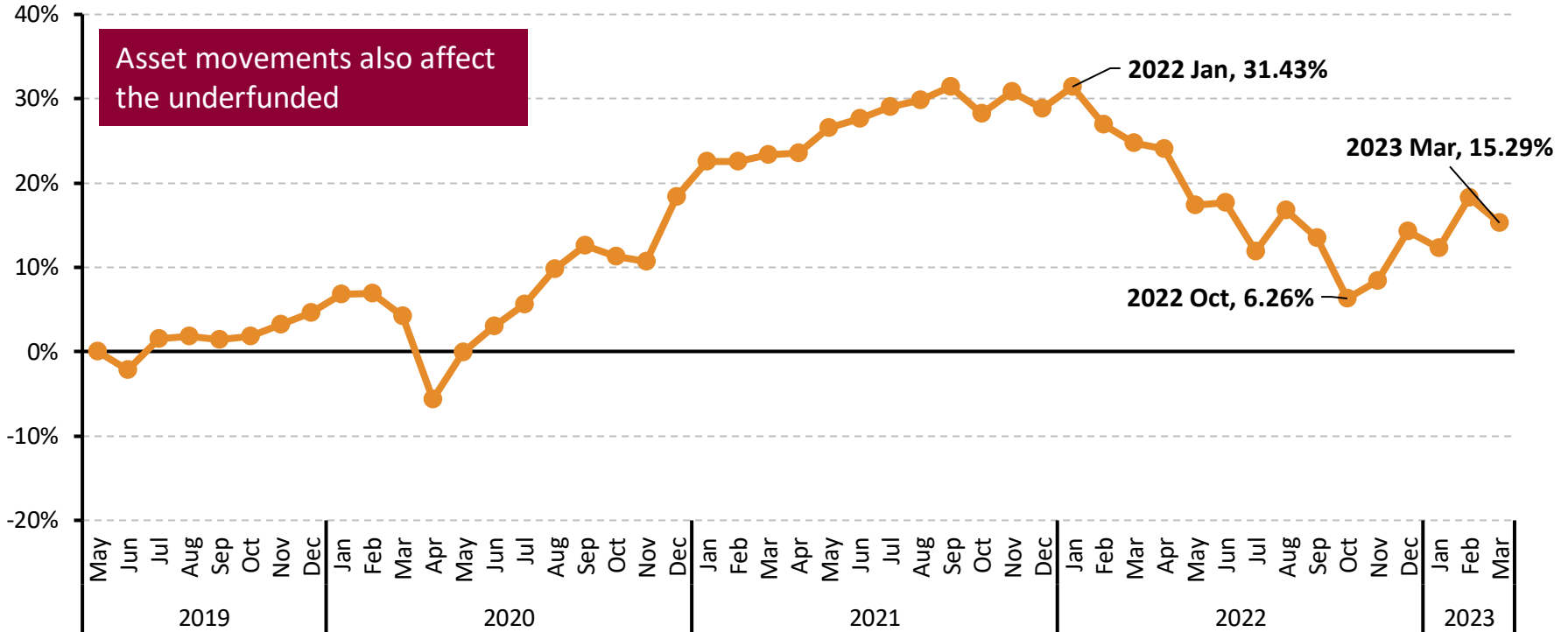
Withdrawal Liability: Market Discount Rate

May 2019 – March 2023 Weighted Market Discount Rate (All Plans)



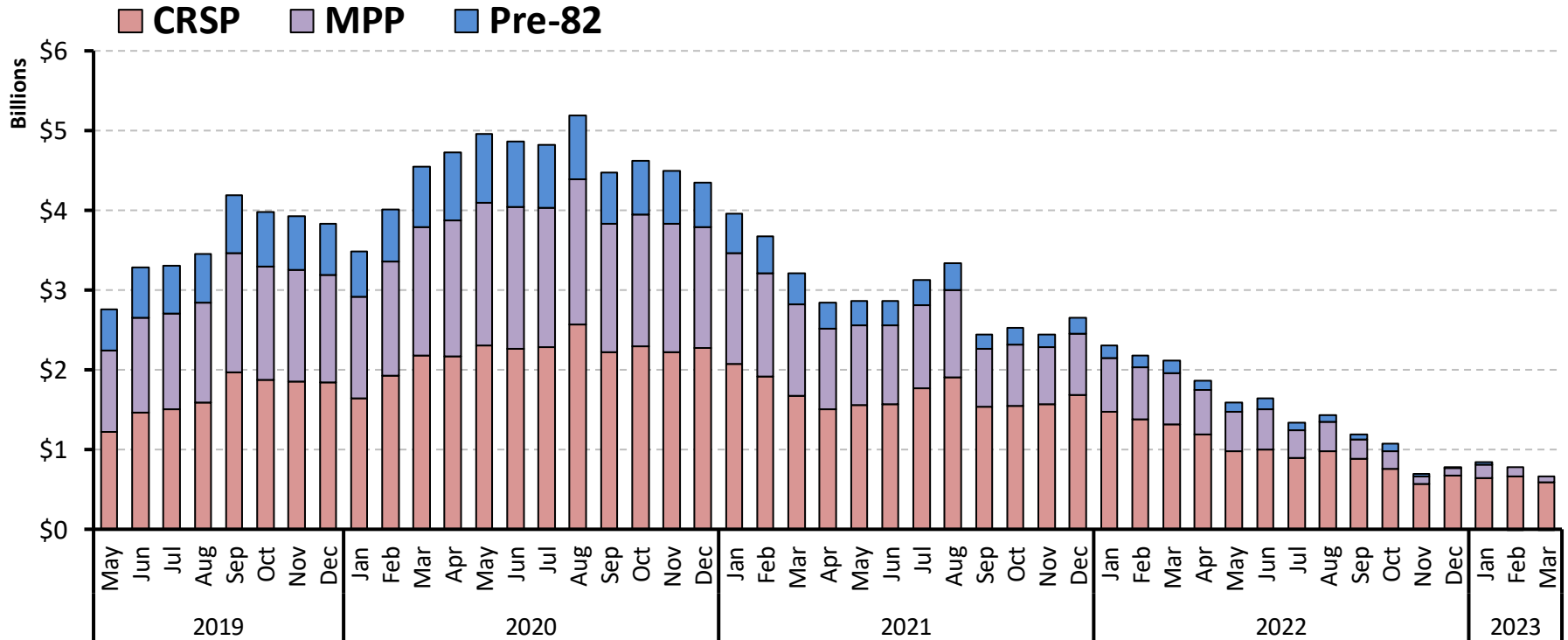
Withdrawal Liability: Asset Performance

Total Cumulative Return from 5/1/2019 (all plans)



Withdrawal Liability: Underfunded Liability

Denominational Allocated Underfunded Pension Liability



CRSP-DB Contributions

- Currently, CRSP-DB contributions are only Normal Cost
 - Normal Cost = the cost of a year of benefit accrual for active participants
 - Corridor plan is over 100% funded (on a funding basis); therefore, no amortizable contributions are due
- Due to the two-year lag for budgeting purposes, 2023 CRSP-DB contributions are based on the 1/1/2021 valuation
 - Normally 2021 to 2023 population changes are *de minimus*
 - Disaffiliations may increase the magnitude of these changes

CRSP-DB Contributions (continued)

- Difficult to identify all disaffiliating clergy
 - Not all disaffiliating clergy go through the DCBC process
- Method to reflect reduction in 2023 service earned
 - Compare *estimated* 2023 FTEs to 2021 FTEs
 - Apply the reduction in FTEs to the 12/31/2023 normal cost/contribution
- Similar process would be applied to the 2024 contribution and communicated early next year

CRSP-DB Contributions (continued)

- Sample adjustment calculation for Conference A
 - 1/1/2021 FTEs: 250
 - 1/1/2023 FTEs: 200 (estimated)
 - Adjustment factor: $200 / 250 = 0.80$
 - 2023 contribution based on 1/1/2021 valuation: \$1,000,000
 - Adjusted 2023 contribution: $0.80 \times 1,000,000 = \$800,000$



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